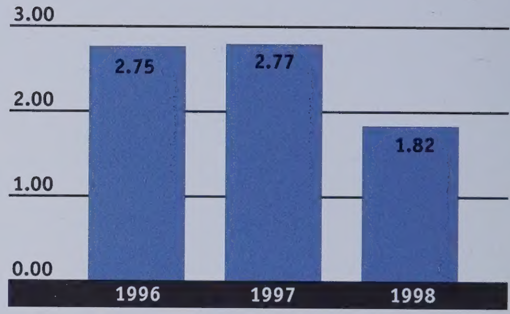
Cameco Corporation

1998 Annual Report

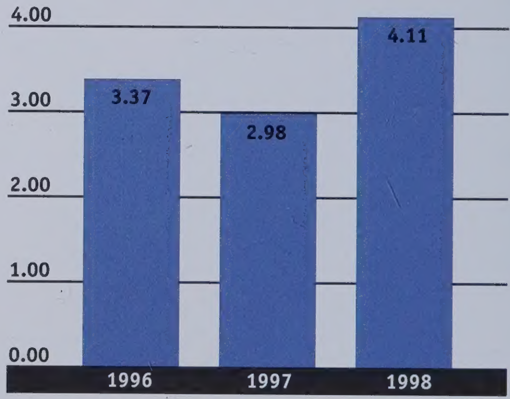
1998 Overview

Cameco, with its head office in Saskatoon, Saskatchewan, is the world's largest uranium producer. In Canada, the company owns and operates the world's two largest, high-grade uranium operations, located in northern Saskatchewan, and the country's only uranium processing facilities, located in Ontario. Through its wholly owned American subsidiaries, Cameco obtains production from in situ leach uranium facilities in Wyoming and Nebraska. The company's uranium products are used to fuel nuclear energy plants, one of the cleanest sources of electricity generation. Cameco also operates a gold mine in Kyrgyzstan in Central Asia. The company explores for minerals in North America, Australia and Asia.



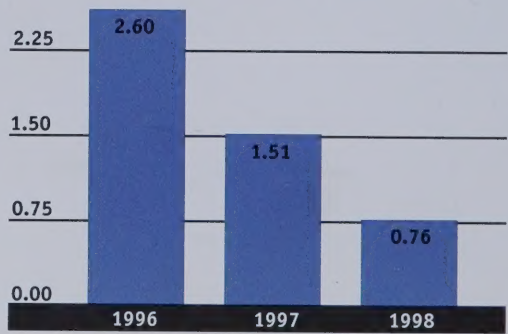
Earnings from Operations per Share ($)

In 1998, earnings from operations reflected lower commodity prices, increased product costs and asset writedowns.



Cash Flow per Share ($)

Cameco will generate sufficient cash flow to cover $200 million of capital expenditures in 1999.



Net Earnings per Share ($)

Despite the depressed markets and writedowns of assets Cameco recorded $44 million in profits in 1998.

South Korea generates more than one-third of its electricity from nuclear power and has 16 reactors under construction or planned.

Seoul, South Korea

	1998	1997	Change
FINANCIAL ($ MILLIONS EXCEPT PER SHARE AMOUNTS)			
Revenue	$ 719	$ 643	+12%
Earnings from operations	$ 104	$ 151	–31%
Net earnings attributable to common shares	$ 44	$ 82	–46%
Cash from operations	$ 235	$ 162	+45%
Earnings per share	$0.76	$1.51	–50%
Cash flow per share	$4.11	$2.98	+38%
Weighted average number of paid common shares (millions)	57	54	+ 6%
Total debt to capitalization	24%	14%	+71%
PRODUCTION (CAMECO'S SHARE)			
Uranium concentrates (million lbs U_3O_8)	27[1]	19	+42%
Uranium conversion (tU)	11,169	12,594	–11%
Gold (oz)	244,385[1]	202,454	+21%

Currency is expressed in Canadian dollars unless otherwise noted.

[1] Includes production from Uranerz Exploration and Mining Limited and Uranerz U.S.A., Inc. beginning January 1, 1998.

A NOTE TO SHAREHOLDERS:

Unlike many resource companies, Cameco does not publish production costs, sales volumes or realized prices. The company is one of only a small number of uranium producers in an industry with few buyers. Generally, our competitors—including state-owned enterprises or large companies in which uranium makes only a supplementary contribution to earnings—do not release this information. For Cameco to do so would compromise our competitive position and ultimately, our shareholders' investment.

FORWARD-LOOKING STATEMENTS:

Certain statements contained in this annual report, including information under the headings: message to shareholders, marketing – nuclear business, uranium operations, gold operations, environment and safety, and management's discussion and analysis, constitute forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results to differ materially from those expressed or implied by such forward-looking statements. Such factors include among others; volatility and sensitivity to market prices for uranium and gold, competition, the impact of changes in foreign currency exchange rates, environmental risks, political risk arising from operating in certain developing countries, changes in government regulations, and policies including trade laws and policies, demand for nuclear power, replacement of production, receipt of permits and approvals from government authorities as well as other operating and development risks. As a result of the foregoing and other factors, no assurance can be given as to the future results, levels of activity and achievements.

A DECADE OF GROWTH

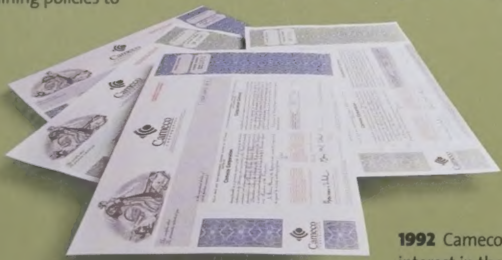
CAMECO IN REVIEW

Cameco Corporation was created in October 1988 by the merger of two government-owned uranium companies—Saskatchewan Mining Development Corporation (provincial) and Eldorado Nuclear Limited (federal).

1988 The exploration team discovered the McArthur River uranium deposit on the last drill hole of the season. This drill rig was covered with a plastic tarp to protect workers from the cold.

1989 Cameco established a goal of 50% northern participation at its Saskatchewan mining operations and began to adopt hiring and training policies to meet this target.

1990 Cameco sold a one-third interest in the Rabbit Lake operation to Uranerz Exploration and Mining Limited in order to reduce debt.

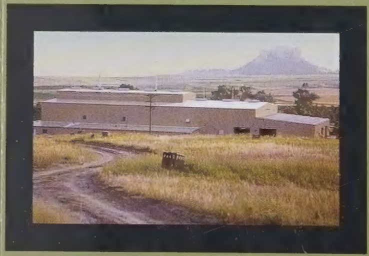


1991 Cameco completed its successful initial public offering at $12.50 per share. The shares began trading on the Toronto and Montreal exchanges.

1992 Cameco purchased an additional 10% of the McArthur River project to gain a controlling interest. The sandy strip in the centre of the photo is from exploration drilling to the orebody below.

1992 Cameco sold its 20% interest in the Cluff Lake uranium operation in northern Saskatchewan.

1994 Cameco began construction on the Kumtor gold operation in Kyrgyzstan — the largest western-managed project in the former Soviet Union.

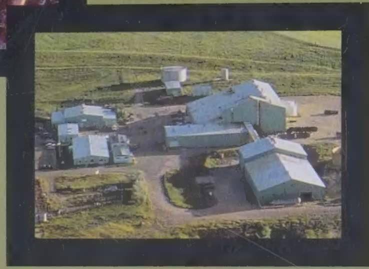


1994 Cameco purchased a 31% interest in the Crow Butte uranium mine in Nebraska providing the company with its first US uranium production.

1995 Cameco began gold production at the Contact Lake mine in northern Saskatchewan and continued operations until the deposit was depleted in 1998.

1996 Cameco Gold, a wholly owned subsidiary of Cameco, was established to direct a program of international exploration, development, acquisitions and strategic alliances from its head office in Toronto.

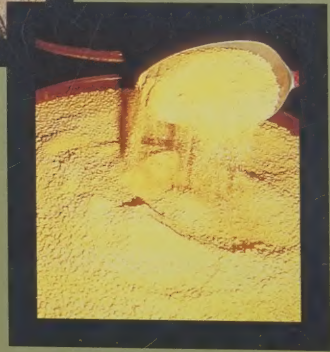
1996 Cameco listed its shares on the New York Stock Exchange and received this bull and bear sculpture to mark the occasion.



1997 The Kumtor gold operation achieved commercial production in May, overcoming many challenges including high altitude, extreme weather, difficult logistics and technical obstacles.

1997 Cameco acquired Power Resources, Inc. providing the company with in situ leach uranium production expertise and making Cameco the largest US uranium producer with operations at Highland (above) in Wyoming and at Crow Butte in Nebraska.

1997 Cameco received regulatory approval to proceed with the final construction phase at the McArthur River project. In 1998, the federal and provincial governments approved development of Cigar Lake, subject to conditions.



1998 Cameco acquired Uranerz Exploration and Mining Limited and Uranerz U.S.A. Inc., increasing reserves and resources as well as production by about 30%.

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Earnings [1]	$56	$24	$92	$48	$8	$73	$81	$102	$138	$82	$44
Cash flow [2]	$97	$174	$99	$123	$131	$127	$176	$133	$178	$162	$235
Debt/Cap. [3]	43%	37%	27%	13%	13%	7%	5%	13%	12%	14%	24%
Spot Price [4]	$14.55	$10.00	$9.76	$8.70	$8.53	$9.98	$9.31	$11.46	$15.54	$12.04	$10.32
Production [5]	15	14	9	11	14	13	14	15	17	19	27

[1]Net earnings (millions) [2]Cash flow (millions) [3]Total debt to capitalization ratio [4]Average uranium spot price for the year ($US/lb U_3O_8) [5]Cameco's share of uranium concentrate production (million lbs U_3O_8) Currency expressed in Canadian dollars unless noted otherwise

South Korea generates more than one-third of its electricity from nuclear power and has 16 reactors under construction or planned.

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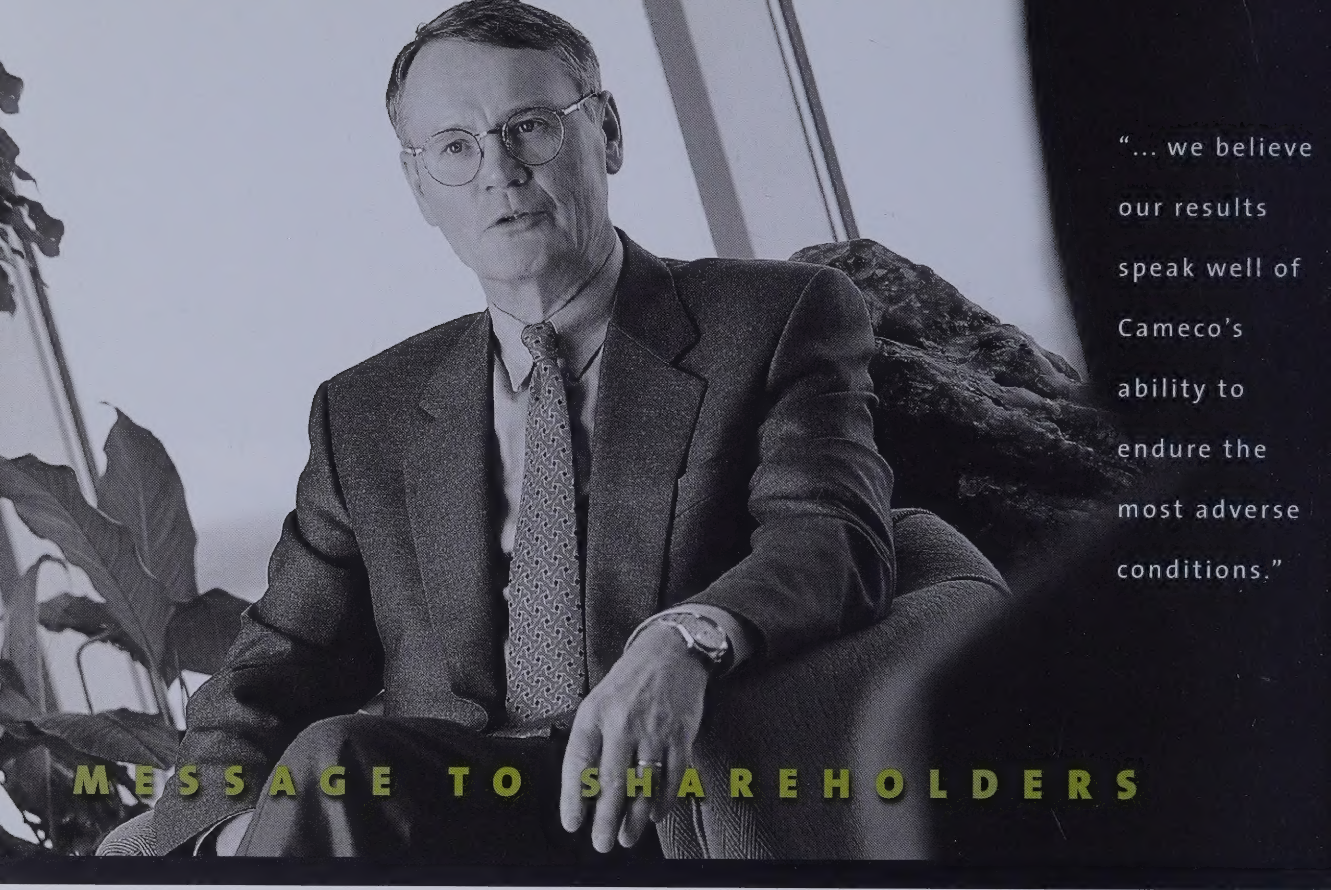


"... we believe our results speak well of Cameco's ability to endure the most adverse conditions."

MESSAGE TO SHAREHOLDERS

1998 Highlights
- acquired major competitor
- achieved record levels of production, sales, revenue and cash flow
- discovered additional 66 million pounds of reserves at McArthur River
- reached agreement in principle to process majority of Cigar Lake ore at Rabbit Lake mill
- resumed negotiations to purchase Russian HEU
- received solid debt ratings from S&P, Moody's and DBRS
- produced 645,000 ounces at Kumtor gold mine
- completed 64% of McArthur River project

An interview with Bernard Michel, Cameco's chair, president and chief executive officer.

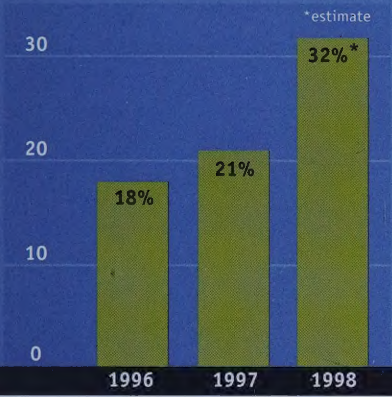
Q: Your net earnings declined by 46% to $44 million in 1998. Why?

A: The decline reflects lower commodity prices, increased product costs from purchased material and a writedown of assets. Uranium spot prices declined 27% during the year to their lowest point since 1993 and gold remained below $300 (US) per ounce.

In addition, the company wrote down $16 million in non-producing US uranium properties and $12 million to reflect the decline in the carrying value of gold investments (non-Kumtor related). Given the depressed markets we faced and our writedown decisions, we believe our results speak well of Cameco's ability to endure the most adverse conditions.

Q: What does the writedown mean? Will there be more?

A: The $16 million writedown associated with non-producing US in situ leach assets included four properties which Cameco owned before its purchase of Power Resources, Inc. (PRI). The writedown is due to a resource reassessment which concluded that the properties were unlikely to be developed. The writedown also included three small properties acquired with PRI and located in areas of relatively dense population, a

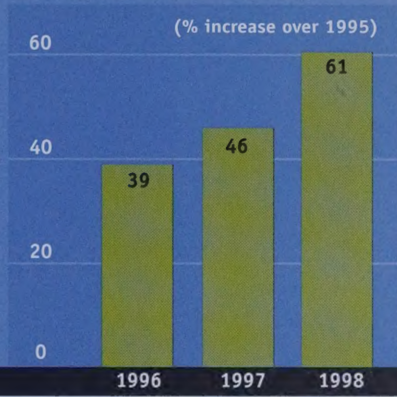


World Uranium Production
(Cameco's share)

Cameco is the world's largest uranium producer.

Cameco U_3O_8 Sales Volume

Even in a tight market, Cameco continues to secure new uranium sales.



situation which would cause development to be time consuming and costly. While, we do not anticipate that there will be a need for further writedowns in the future, such a decision will be driven by the results of an annual review which considers many variables.

Q: Have you changed the uranium price used for calculating reserves?

A: No, because we know of no reason to change our long-term view of the uranium market.

Q: What about the $12 million writedown related to gold activities?

A: The majority of the writedown is related to our investment in a junior gold company, Menzies Gold NL which, like most other gold companies, faced a decline in its share value in 1998. The writedown did not reflect a lack of faith in the geologic potential of the properties explored by Menzies.

Q: What targets did Cameco achieve in 1998?

A: First, the purchase of Uranerz was an important milestone which consolidated Cameco's leadership position in the uranium industry and resulted in Cameco accounting for about a third of the world's uranium production.

Second, we achieved record cash flow of $235 million ($4.11 per share), up 45% in a year when we faced weak prices for our products and services.

Third, we increased our gold sales volumes by 38%.

Fourth, we completed 64% of the McArthur River project by year end while remaining on budget.

Q: Which targets did you miss?

A: Obviously, we are disappointed in our profits this year. We expected better uranium and gold prices.

I would say that is the major target we missed. The next two items are not actually missed targets, as they are actions we took to deal with major developments.

First, to ensure a smooth transition to our new mines and to address the falling uranium price, we decided to reduce production at our Saskatchewan sites. This, regrettably, led to layoffs of some employees.

Second, an unfortunate truck accident in Kyrgyzstan resulted in a widely reported spill of about 1,800 kilograms of sodium cyanide. Although a panel of international experts reported that there was no long-term environmental effect and no confirmed illnesses or deaths, the accident was blown out of proportion to its consequences. The matter was settled in a reasonable manner with the government of Kyrgyzstan. One of the outcomes of this accident is an internal review and improvement of the corporation's environmental management systems, including strengthened emergency response procedures. In addition, we launched a program to improve relationships and communication with local communities and their leadership.

With construction in full swing, contractor Ted Bowes surveys the McArthur River site.

Q: You spent nearly half a billion dollars acquiring Uranerz in 1998. How and when will investors see a return on that investment?

A: While we may not achieve our target return on investment immediately, this acquisition was accretive to earnings and cash flow in 1998.

Q: Cameco entered 1999 with a larger portion of the world's uranium production capacity but you have decreased production. Does this mean you will be selling less?

A: No, it will not affect our sales strategy. We will continue to fill our contracted sales from our large inventory and we will continue to sign long-term contracts in anticipation of production from McArthur River and Cigar Lake. We have a significant inventory position, deliberately built up during the past several years. Our plan has always been to draw down this inventory during the period of transition to our new mines. This drawdown will be phased in as we demonstrate production from McArthur River first and from Cigar Lake later on. In the meantime, we may additionally consider limited spot market purchases.

Q: As Cameco enters a transition phase, moving from one generation of mines to another, what are the major challenges you face?

A: They are of various kinds, but mainly regulatory and technical.

At the McArthur River project, our next milestone is to receive the operating licence once we demonstrate that we can successfully deal with the mining issues. This means achieving water control, improving weak ground conditions and, above all, providing radiation protection. We are pleased that surface and underground development has progressed well and that freezing of the orebody, a very critical step, began in January 1999. We expect to begin production on schedule in late 1999.

At Cigar Lake, the next milestone is to receive the construction licence. Meanwhile, work continues at the project. Significant success has been achieved in testing of the special tunneling machine in waste rock and progress has been made in the design of the freeze hole drilling equipment. In 1999 we will test jet boring, the mining method we plan to use underground, in waste rock.

Q: Why should investors put their money into Cameco?

A: Having shares of Cameco, the largest producer of uranium in the world, means that one owns a piece of a unique company which:

- has a controlling interest in the two richest uranium deposits in the world–no other commodity compares, for example, McArthur River is comparable to finding a large, 10-ounce-per-ton gold deposit
- will remain the lowest cost uranium producer in the world, and not only a producer, but also a converter of uranium and, therefore, integrated into the nuclear business

World electricity consumption is expected to increase 3% annually for the next two decades.

Tokyo, Japan

- has real financial strength built on a history of solid earnings and cash flow during extended periods of depressed uranium prices
- provides exposure to a little known industry with excellent supply/demand dynamics and environmental benefits which are increasingly becoming recognized.

Q: What is the key factor that could have a significant impact on the company's financial performance in 1999?

A: The key factor will be the uranium price.

Even though Cameco sells only on the long-term market, the spot price affects our existing contracts as about 60% have pricing mechanisms which reference the spot price at the time of delivery. This means a typical multi-year contract will most likely yield different prices as we deliver uranium at various times throughout the contract term.

The spot price also impacts the level of fixed prices which are set in new long-term contracts. As such, it is important to remember that some contracts were signed when spot prices were in the high teens and some were signed when spot prices were much lower.

Therefore, while 60% of the volumes under contract are affected by movements in the current spot price, 40% are not.

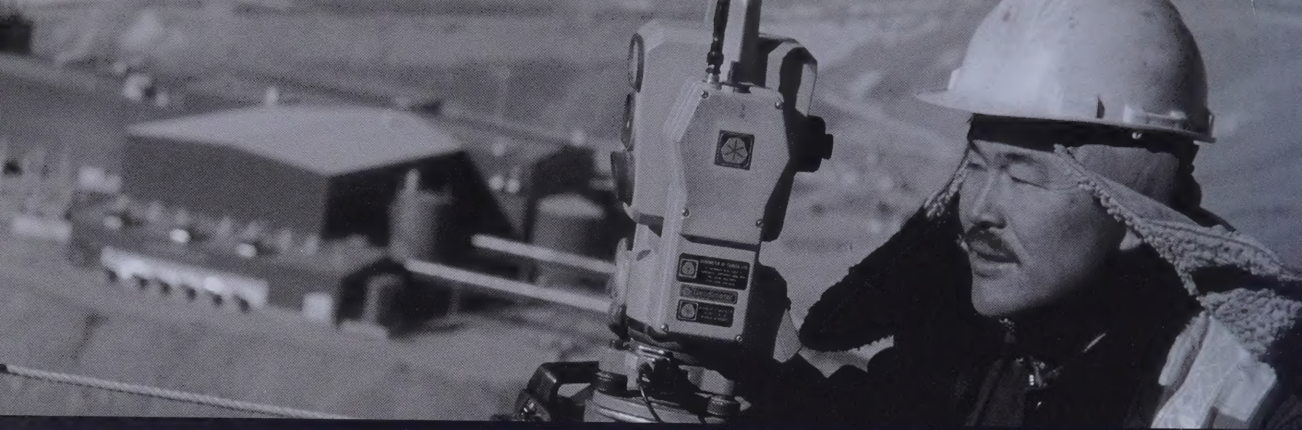
In 1999, for every $1.00 (US) change in the spot price, revenue will change by $18 million (Cdn), cash flow by $14 million (Cdn) and net earnings by $7 million (Cdn). That translates to $0.12 earnings per share and $0.25 cash flow per share.

Q: Let's examine the pricing split of 60% spot related and 40% fixed. Do you think this is still an effective strategy?

A: Yes. While Cameco does not receive all the benefits of an increase in the spot price, it doesn't suffer all the downside, either. This, we believe, is a reasonable balance which has been successful through the price volatility of the past few years. In addition, the pricing strategy is influenced by customer policies. Most customers do not want total exposure to the spot market, nor do they want to be fully tied to a fixed price.

Q: The uranium spot market was weak again in 1998 and this was reflected in the spot price. Do you have any reason to believe the market will improve in 1999?

A: The spot market is already showing signs of improvement in 1999 as utilities and producers purchase for actual and discretionary needs. Since the end of 1998, the uranium spot price has increased by 20% to $10.50 (US) per pound U_3O_8. In addition, the spot market started 1999 strong, with 3.5 million pounds U_3O_8 trading in January alone. This compares to 10 million pounds sold in the spot market for all of 1998.



Against the backdrop of the mill, Nurbek Sydykov surveys the open pit mine at the Kumtor operation in Kyrgyzstan.

Q: Germany has joined Sweden by indicating they intend to phase out nuclear power. Is this a sign that nuclear power is on the decline?

A: It is unlikely that Germany's nuclear power program will be impacted over the next 15 years for several reasons.

The proposal to phase out nuclear power in Germany is a political initiative driven by the Green party, a coalition partner in the new government. It is surprising that this is happening when a recent poll showed that some 77% of German people support continued operation of existing nuclear plants.

The proposal is being promoted despite the difficulty of replacing a third of the country's electricity currently generated by nuclear power and despite a lack of competitive domestic energy resources.

Perhaps Germany could import electricity, including nuclear electricity from neighbouring countries. But imports may not always be cheap or dependable. For example, Sweden stopped exporting electricity to Germany during a cold spell in January 1999.

If all nuclear reactors were replaced by fossil fuel plants they would generate the same amount of carbon dioxide (CO_2) emissions as all road traffic in Germany. This would make Germany's targets for cutting greenhouse gas emissions agreed to at the Kyoto conference unattainable.

Meanwhile, Sweden which, as a result of a 19-year-old political decision, was expected to close one reactor in 1998 has delayed the decision again. Sweden generates almost half of its electricity from 12 reactors.

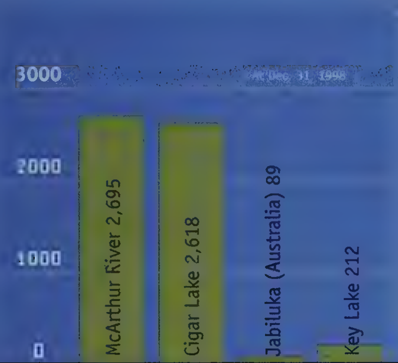
We remain convinced, in spite of the political debate about nuclear power in Germany and Sweden, the long-term fundamentals for nuclear electricity are quite favourable and improving.

Q: What happened to the highly enriched uranium discussions that Cameco and its western partners were having with Russia?

A: These discussions were on and off during 1998. In part, due to the unexpected announcement of uranium inventory sales by the United States Enrichment Corporation when it was privatized. This added more uncertainty to the uranium price outlook and made the discussions more difficult. At the end of the year, the parties were back at the table negotiating and progress was encouraging.

Q: Cameco's debt level is higher after the Uranerz acquisition. How will this affect future initiatives?

A: We have maintained a conservative capital structure with a total debt to capitalization of 24%. We do not believe this debt level will unduly constrain the initiatives which are currently planned and Cameco anticipates having the capacity to reduce debt from surplus cash flow in the next several years.

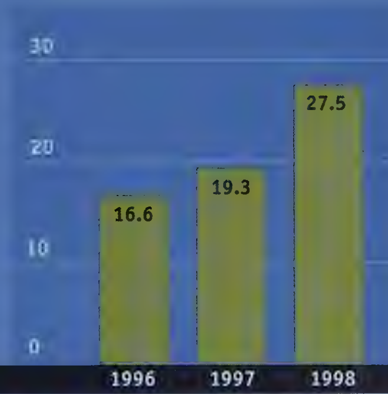


VALUE OF RESERVES
(US$ per tonne of ore)

McArthur River and Cigar Lake are the world's richest uranium deposits.

URANIUM PRODUCTION
(Cameco's share million lbs U_3O_8)

Cameco's record uranium production in 1998 reflected the increased ownership in its uranium operations.



Q: Is there a chronic over supply of uranium?

A: There has been historically, but mine production continues to be only one-half of requirements. As a result, excess western world inventories were drawn down by 40 to 45 million pounds in 1998. We expect to see a similar reduction in inventory in 1999. Total excess western inventory is now estimated to be about one year's forward western world uranium requirements and is rapidly being used up.

Q: What is your gold strategy?

A: Let me say that uranium is and will remain our core business. Gold will be secondary. Having said that, let's look at gold's contribution in 1998. Gold-related revenue accounted for 20% of Cameco's total revenue, 20% of earnings from operations and 38% of cash flow.

Our strategy is to ensure that the Kumtor gold mine continues to contribute to the bottom line and we are very opportunistic in our approach to any other ventures into gold.

Q: Will you have sufficient funds to meet debt obligations at the Kumtor operation?

A: On the basis of our analysis, if we realize an average price of about $310 (US) per ounce over a five-year period, payments to third parties and Cameco will be secured.

Q: What are your top three priorities for 1999?

A: One, achieve production at McArthur River. Two, advance the licensing and testing of Cigar Lake. Three, cost control.

Q: What specific targets do you have?

A: Some specific targets in 1999 include:

- improve our health and safety record by reducing lost-time accidents from the 1998 level of 18
- generate sufficient cash flow to fund capital expenditures of $200 million
- increase uranium sales volume by 10%
- conclude an agreement with Russia providing for a predictable entry of highly enriched uranium into the market
- decrease corporate-wide administration costs by 5%
- decrease exploration costs by 25%

We look forward to presenting our report card a year from now.

March 4, 1999

MARKETING · NUCLEAR BUSINESS

At the Key Lake operation, drums filled with U_3O_8 are taken from inventory to begin their journey to Cameco's customers around the world.

Nuclear Power

Uranium is used to fuel nuclear reactors for the generation of electricity. There are more than 400 nuclear reactors operating today in 32 countries, generating about 17% of the world's electricity. The largest market is the United States which accounts for about 24% of all operating reactors and 34% of western world demand.

Key Nuclear Power Developments - 1998

- US electrical deregulation impacts nuclear program
- Asia continues nuclear commitment
- Germany and Sweden debate nuclear phaseout
- Nuclear outlook remains positive

Deregulation of the Utility Industry As expected, deregulation of the electrical industry in the United States led to the premature closure of three nuclear reactors in 1998. These units totalled 2,740 MWe, representing about 1.3 million pounds U_3O_8 in annual uranium consumption or less than 1% of western world requirements.

Utilities responding to the challenges of deregulation improved operations and achieved higher capacity factors. As a result, successful nuclear plants operate for longer periods of time, increasing uranium consumption. This trend is expected to offset most, if not all, of the demand lost when uncompetitive reactors close.

In addition, for the first time, two US reactors were purchased by successful nuclear companies, AmerGen (an American/British joint venture) and Entergy (a US utility).

In 1998, other positive developments occurred in the US nuclear industry.

China is planning to build more than 30 reactors to help meet an expected annual growth in electrical consumption of greater than 5%.

Shanghai, China

The US Nuclear Regulatory Commission approved Westinghouse's final design for its advanced reactor. This reactor can be prefabricated and shipped worldwide, be built in 36 months, and is estimated to cost about 30% less than most conventional nuclear power plants.

Two utilities submitted applications to extend for 20 years the operating licences of five reactors, and significant progress was made on the permanent disposal of high-level waste.

In addition, a report recently published by the Washington International Energy Group concludes that most of the US nuclear plants must continue operating to meet increasingly stringent US environmental standards and carbon reduction commitments made at Kyoto.

Asia Commits to Nuclear The economic difficulties in the Far East have not significantly impacted nuclear power programs. For example, South Korea's overall electricity production dropped in 1998, but its nuclear generated electricity increased 16% over 1997.

Reactors in Asia are typically large, baseload plants reflecting the long-term dependability of nuclear energy, in a context where competitive domestic alternatives are not available. While some planned reactors were delayed, several Asian countries reaffirmed their commitment to expand nuclear power.

For the first time in 10 years, Japan approved the construction of a nuclear unit on a new site. Commercial operation is planned for 2005.

South Korea announced plans to build an additional 16 reactors to be commissioned between now and 2015.

Taiwan is planning to build two additional reactors and has committed to maintain 20% of its electricity from nuclear energy.

Germany/Sweden Discuss Nuclear Phaseout There was much debate regarding nuclear power in Germany in 1998, heightened by the election campaign and formation of a new government.
The coalition of Social Democrats and the Green party, elected in the fall of 1998, stated its intention to phase out nuclear power. However, the practicality of this initiative is in doubt as Germany operates 19 reactors which account for one-third of the country's electricity generation and 50% of its baseload capacity. Germany's reactors consume about 9 million pounds U_3O_8 annually.

Meanwhile Sweden, which began discussing a nuclear phaseout in 1980, was expected to close its first reactor in 1998 but due to political and legal pressures has delayed the implementation of that decision. Sweden generates almost half of its electricity from 12 reactors which consume about 4 million pounds U_3O_8 per year.

Nuclear Power Outlook

Demand for electricity is expected to grow, with nuclear power generation continuing to make a significant contribution as it is cost competitive, reliable and sustainable. Nuclear power will play a growing role in helping nations achieve their Kyoto emission reduction targets.

At Port Hope, a truck driver directs the loading of a UF_6 cylinder into a freight container. This cylinder will be transported to the port of Montreal and then shipped to the Far East.

Key Uranium Market Developments - 1998

- U_3O_8 spot market volume declines by more than 50%
- U_3O_8 and UF_6 conversion services prices fall
- Long-term U_3O_8 contracting volumes and prices are down

Uranium Spot Market On average, in recent years, about 15% of the western world's uranium requirements is sold in the spot market for delivery within 12 months of signing. However, in 1998, only about 10 million pounds U_3O_8, or 7% of the western world's uranium consumption, were sold on the spot market. The uranium spot price declined throughout most of 1998, falling by 27% to end the year at $8.75 (US) per pound U_3O_8.

The weak spot market reflected lower utility and producer demand. Utilities withdrew from the spot market for a variety of reasons including reductions in their uranium inventories, deferrals of requirements and unsettled market conditions.

UF_6 Conversion Market Spot prices for UF_6 conversion services weakened by 31% to end 1998 at $3.50 (US) per kilogram uranium as UF_6. This sharp decline reflected the perception that large supplies of UF_6 conversion would become available as a result of the privatization of the United States Enrichment Corporation (USEC) and the implementation of the US/Russia highly enriched uranium (HEU) agreement.

Long-Term Uranium Market Some 85% of all uranium is sold under long-term, multi-year contracts with deliveries commencing one to three years after signing.

The long-term market is important to Cameco. The company has not sold in the spot market over the last 10 years.

Long-term contract price indicators published in the industry fell by 11% during 1998 to $11.10 (US) per pound U_3O_8, demonstrating more resilience than the spot price.

Volume contracted on the long-term market decreased by 31% in 1998 to about 50 million pounds U_3O_8, compared with 72 million pounds in 1997.

The low volume in 1998 can be attributed to several factors.

First, the heavy contracting which took place in the 1995 to 1997 period satisfied a large portion of utility needs for the near term, leaving less uncovered demand to prompt contracting.

Second, perceptions about uranium prices changed during the year with expectations that prices would not only remain low—reducing the urgency to secure new supply contracts—but would continue to decline, encouraging buyers to take a wait and see approach.

Third, buyers postponed purchasing due to their expectations that large supplies would be available from inventories held by the US Department of Energy (DOE) and USEC and from the Russian HEU natural uranium feed agreement.

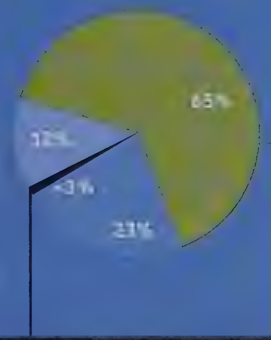
Customer Countries

Belgium	Mexico
Canada	South Korea
Czech Republic	Spain
Finland	Sweden
France	Taiwan
Germany	United Kingdom
Japan	United States

Cameco sells uranium and conversion services to companies located in 14 countries around the globe.

1998 Nuclear Revenue
(by region)

North America remains the largest source of Cameco's nuclear revenue.

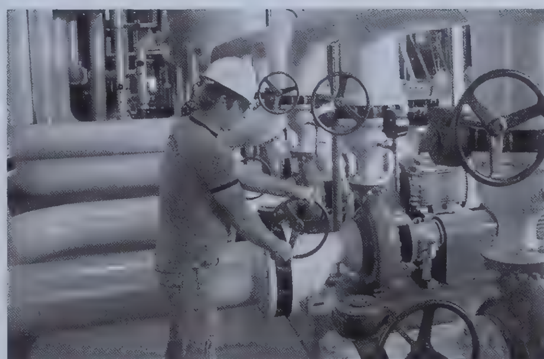


Key Uranium Industry Developments - 1998

- Russia renews HEU negotiations with western parties
- USEC announces plan to sell excess inventory
- Inventory drawdown continues
- Western world consumption increases
- Western world production declines

Uranium Industry Developments

Russian HEU In December 1997, Russia ended negotiations with Cameco and two other western companies concerning the marketing of uranium available under the US/Russia HEU agreement and indicated their intention to enter into alternative marketing arrangements. Following the appointment by President Yeltsin of a new Minister of Atomic Energy, the western parties were invited to renew negotiations. Cameco agreed to enter these discussions on the basis of broader US and Russian government involvement.



Operator Roy Merchen adjusts a valve at one of the Highland operation's satellite plants.

In October 1998, the US government authorized the expenditure of $325 million (US) to purchase up to 29 million pounds U_3O_8 contained in the 1997 and 1998 HEU deliveries from Russia, contingent upon the conclusion of a long-term commercial agreement covering deliveries scheduled for 1999 and thereafter.

As a further inducement to conclude a commercial agreement, the US DOE promised to defer the sale of approximately 58 million pounds U_3O_8 of inventory, which includes the 29 million pounds mentioned above, for 10 years.

The uranium derived from HEU has long been accounted for in the supply/demand forecasts of the uranium industry. This uranium is subject to trade restrictions and quotas, limiting the volumes that can be sold in any year.

Cameco continues to believe that this material can be incorporated into the market in a non-disruptive fashion and, indeed, is needed to help fill future uranium requirements.

USEC Sale of Excess Uranium In July 1998, USEC was privatized through an initial public offering. In the filing documents, USEC disclosed it had a uranium inventory of about 75 million pounds U_3O_8 equivalent, 62 million of which it planned to sell in the long-term market from 1999 to 2005. The prospect of an aggressive sales schedule contributed to the decline in the uranium spot price in 1998.

Inventory Drawdown The drawdown of excess western world inventory held by utilities, producers and governments was approximately 40 to 45 million pounds in 1998, similar to the previous year.

URANIUM SUPPLY/DEMAND
(million lbs U_3O_8)

McArthur River and Cigar Lake uranium is needed to meet requirements in the next decade.

Western World Uranium Consumption Increases In 1998, western world uranium consumption is estimated to have increased to 144 million pounds U_3O_8 from 137 million in 1997.

World Uranium Production Falls In 1998, world production declined by 7% from 1997 to an estimated 86 million pounds U_3O_8. Western world production fell by 9% to about 70 million pounds.

Production adjustments announced in 1998 will cause a further reduction in world output during 1999.

URANIUM MARKET OUTLOOK

Despite some negative developments in 1998, the long-term uranium market outlook remains positive and new mine development will be needed to meet anticipated uranium requirements.

Consumption Over the 10-year period from 1999 to 2008, cumulative world consumption is expected to total 1.7 billion pounds U_3O_8. Of that, western world consumption accounts for almost 85%.

Overall, in spite of projected reactor closures, it is estimated uranium requirements will grow about 1% compounded annually.

Supply Cameco assumes that the CIS and Eastern European countries will fill their requirements from domestic sources or Russian inventories, while western world requirements will be filled by a number of different sources.

The largest source of supply comes from existing western world mines. This source includes operating mines, expansions proposed at existing mines and a new mine which is constructed but waiting for final approval.

Existing western mines will fill only 39% of western requirements over the next 10 years because the reserves of a number of these mines will be depleted. In Canada alone, depletion of the Key Lake, Rabbit Lake and Cluff Lake mines is expected to remove about 28 million pounds of annual uranium production.

The next source of supply is reprocessing of spent fuel which is expected to contribute about 8% or about 117 million pounds U_3O_8 over the period.

Production from the CIS and China, plus Russian inventory drawdown, are anticipated to hold relatively stable and supply a total of 171 million pounds U_3O_8 over the decade.

Uranium derived from the dismantling of nuclear weapons from Russia and the United States may provide about 11% of the western world's requirements over the decade.

Excess western inventories are expected to be drawn down over the period.

Even with all these sources of supply, new mines are needed to fill the gap between supply and demand.

Cameco expects McArthur River and Cigar Lake, when they reach the full combined annual production of 36 million pounds U_3O_8, to provide about 76% of the new uranium mine supply needed.

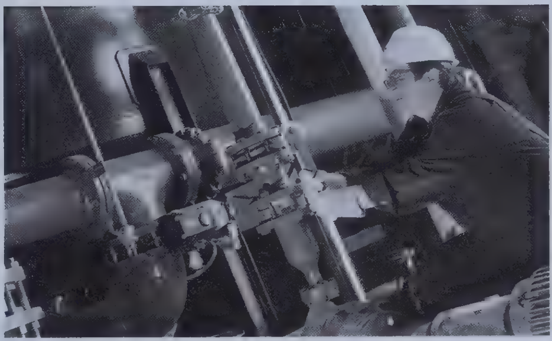
Nuclear power in 32 countries accounts for about 17% of the world's electricity.

England

The remaining new mine uranium production is likely to come from other deposits in Canada, Australia and the United States. These deposits generally have smaller reserves and much lower grades than the high-grade deposits controlled by Cameco.

The need for new mine supply is expected to put upward pressure on the uranium price over the 10-year period, as uranium prices would have to rise significantly above the 1998 level to provide an adequate return to producers intending to build new mines.

Uranium Market Summary In a world of much smaller, lower-grade deposits, Cameco will continue to be a uranium market leader. The company's exceptional reserves and reliable production will provide its customers with competitive and secure long-term supply for the foreseeable future.



Environment technician Janet Holmgren closes a valve on a sand filter tank in McArthur River's new water treatment plant.

Cameco's Nuclear Business

Marketing Overview Cameco supplies uranium concentrates (U_3O_8) and uranium conversion services to electric utilities around the world. Uranium concentrates must be refined and converted to natural uranium hexafluoride (UF_6) or uranium dioxide (UO_2) before the contained uranium can be used as nuclear fuel.

UF_6 is the form of uranium required for processing at enrichment plants. Following enrichment, UF_6 is converted to UO_2 which is used to fabricate the enriched fuel pellets required by the majority of the world's nuclear plants, which are light-water reactors.

Non-enriched (natural) UO_2 is used to manufacture fuel pellets used in heavy-water reactors such as the Candu reactors.

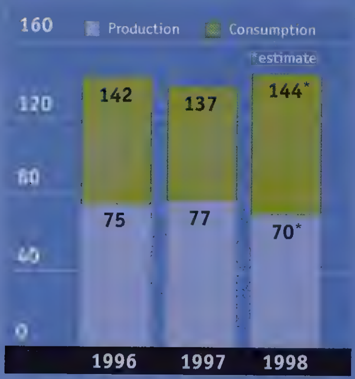
Sales In 1998, Cameco's uranium concentrate and uranium conversion sales increased by 10% and 6% respectively compared to 1997.

Also during the year, Cameco concluded long-term contracts for about 20 million pounds U_3O_8 to be delivered through the next decade. This compares with 32 million pounds signed in 1997 and reflects the decline in long-term market demand, which fell by 30% in 1998.

Cameco has more than 100 million pounds of U_3O_8 and 50,000 tonnes uranium for conversion services under contract with utilities around the world for delivery during the next decade.

Cameco offers many benefits to its customers, including competitive pricing, security and diversity of supply, "one-stop shopping" for its two products (UF_6 and UO_2), and flexible contract terms. Cameco strives to offer the most flexible, dependable and value-added customer service of all uranium producers.

Uranium Market

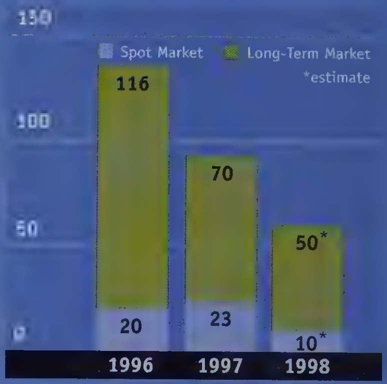


Western World Market
(million lbs U_3O_8)

Uranium consumption is double production.

Western World Contract Volumes
(million lbs U_3O_8)

The long-term market accounted for more than 80% of the uranium contracts in 1998.



Uranium Price Comparison
(annual average $US/lb U_3O_8)

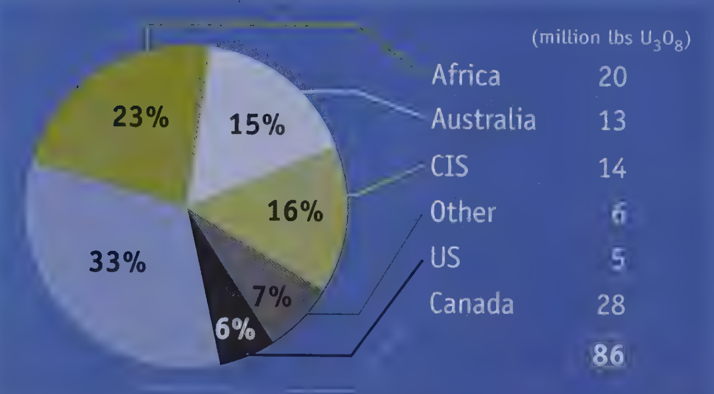
Cameco typically receives a higher uranium price by contracting in the long-term market where utilities look for security of supply.

Canadian Export Price The average price of uranium from Canada, delivered by Canadian companies to their export customers. More than 99% of these deliveries were under long-term contracts.

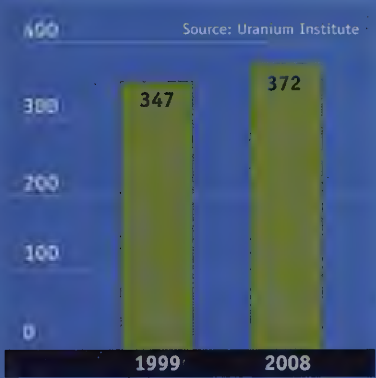
Nuexco Exchange Value A uranium spot market price indicator. Spot market deliveries are scheduled within one year of the transaction date.

World Uranium Production
(estimated 1998)

Cameco's 27 million pounds of U_3O_8 production represented 96% of Canada's output.



Uranium Market

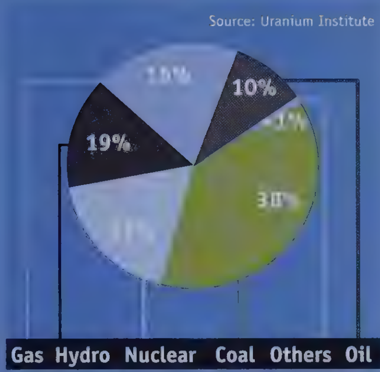


Nuclear Capacity
(GWe)

Nuclear power generation is expected to increase by 7% over the next decade.

World Electricity Generation
(1995)

Nuclear energy accounts for 17% of the world's electricity demand.



Nuclear Reactors

	Reactors[1] in operation	Reactors[1] under construction	Nuclear[2] electricity (%)	Uranium[3] requirements (000s lbs U_3O_8)
Argentina	2	1	11.4	387
Armenia	1	0	25.7	172
Belgium	7	0	60.0	2,288
Brazil	1	1	1.1	224
Bulgaria	6	0	45.4	1,482
Canada	14	0	14.1	3,299
China	3	4	0.8	985
Czech Republic	4	2	19.3	2,402
Finland	4	0	30.4	1,456
France	58	1	78.2	26,752
Germany	19	0	30.6	9,523
Hungary	4	0	40.8	894
India	10	6	2.3	569
Japan	52	1	36.0	19,428
Kazakhstan	1	0	0.6	<1
Korea (South)	14	6	34.1	6,736
Lithuania	2	0	81.5	858
Mexico	2	0	6.5	572
Netherlands	1	0	2.5	255
Pakistan	1	1	0.7	582
Romania	1	0	9.7	244
Russia	29	3	13.6	8,124
Slovak Republic	5	1	44.0	1,295
Slovenia/Croatia	1	0	40.0	343
South Africa	2	0	6.5	811
Spain	9	0	29.3	4,565
Sweden	12	0	46.2	4,105
Switzerland	5	0	40.6	1,529
Taiwan	6	0	26.4	2,407
Ukraine	14	2	46.9	5,106
United Kingdom	35	0	27.5	6,492
United States	104	0	20.1	49,417
Total	429	29		163,303

Source: The Uranium Institute

[1] At December 31, 1998
[2] 1997
[3] 1998

URANIUM OPERATIONS

At McArthur River, mine general foreman Paul Fox examines one of the freeze holes which will be used to freeze the orebody in preparation for mining.

Profile

Cameco owns and operates the world's two largest, high-grade uranium mines at Key Lake and Rabbit Lake in northern Saskatchewan. Through its wholly owned American subsidiaries, Cameco obtains all of the production from the Highland uranium operation in Wyoming and 90% of the production from the Crow Butte operation in Nebraska.

The company is an integrated, value-added uranium producer which owns and operates refining and conversion plants in Ontario.

In August 1998, Cameco acquired Canadian-based Uranerz Exploration and Mining Limited and Uranerz U.S.A., Inc. (together known as Uranerz), which increased the company's long-term reserves and resources as well as uranium production by about 30%. Cameco accounted for nearly one-third of the world's total production in 1998.

Cameco's future is secured by controlling interests in McArthur River and Cigar Lake, the two largest and highest-grade uranium deposits in the world, located in northern Saskatchewan. The company's share of reserves and resources from these deposits is more than 575 million pounds U_3O_8.

Current Mines

Key Lake In 1998, Key Lake retained its position as the world's largest uranium operation, with the production of 14.0 million pounds U_3O_8. In preparation for the startup of production at McArthur River in late 1999, the Key Lake mill, where McArthur River ore will be processed, will be retrofitted during an extended summer shutdown. After a ramp-up period of a few years, mill production is expected to be about 18 million pounds annually.

Athabasca Basin

The Athabasca Basin in northern Saskatchewan is home to the world's richest uranium deposits.

Conversion to the subaqueous deposition process at the Deilmann tailings management facility at Key Lake began in 1998. This system, designed to accommodate McArthur River ore, will allow tailings to be deposited beneath a water cover.

Rabbit Lake In 1998, Rabbit Lake output was reduced to11.7 million pounds U_3O_8, down slightly from record production of 12.0 million pounds in 1997.

An agreement in principle has been reached among the owners to process the majority of the ore from Cigar Lake at the Rabbit Lake mill, subject to regulatory approval. This will extend the life of the Rabbit Lake operation by about 15 years.

Due to current uranium market conditions, and to facilitate the transition to processing Cigar Lake ore, a slowdown in Rabbit Lake production became advisable. In 1999, this will result in the suspension of mining activities and the mill operating at half capacity, producing 6 million pounds.

Power Resources, Inc. and Geomex Minerals Inc. The Highland in situ leach operation in Wyoming produced 1.1 million pounds U_3O_8 in 1998 down from a record 1.6 million pounds in 1997.

Licensing activities are continuing for the Gas Hills project in Wyoming, which will become a satellite plant to the Highland operation. However, in response to market conditions, development and production will likely be delayed past the planned startup date of 2000.

In 1998, Cameco, through its US subsidiaries, increased its share in the Crow Butte in situ leach operation in Nebraska to 90% from 32%. Crow Butte is one of the lowest-cost uranium operations in the United States.

The Highland and Crow Butte operations make Cameco the largest US uranium producer.

Future Mines

McArthur River McArthur River is the world's largest, high-grade uranium deposit. In 1998, Cameco acquired the 28% interest held by Uranerz, increasing its interest in the project to 84%. Construction at McArthur River continued throughout 1998. The project is on schedule and on budget with production targeted to begin late in 1999, after all necessary operating licences are obtained.

Construction of the underground processing circuit began in 1998 and is scheduled for completion in the summer of 1999. The sinking of the second shaft, which is for exhaust ventilation, has reached about 380 metres of the planned 530 metres below the surface. In 1999, sinking of a third shaft, also for ventilation, will be initiated.

Through further underground exploration drilling, total reserves at McArthur River have increased by 35% to 255 million pounds U_3O_8. Reserves and resources now total 483 million pounds at an average grade of 14% U_3O_8.

GRADES (% U_3O_8)

McArthur River and Cigar Lake have grades almost 100 times the world average.

The mine is expected to produce 18 million pounds U_3O_8 annually at full production. Cameco's share of that production will be more than 15 million pounds.

Cigar Lake Cigar Lake is the second largest, high-grade uranium orebody in the world. In 1998, the federal and provincial governments approved development of the Cigar Lake project, subject to certain conditions. During 1998, an innovative mechanized mine development system suitable to the project's underground conditions was tested successfully and the freeze hole drilling system was initiated.

An agreement in principle has been reached by the joint venture partners to process the majority of the ore at Cameco's Rabbit Lake operation, subject to regulatory approval.

Cameco anticipates production will begin in late 2001 or 2002, presuming regulatory approvals are obtained, construction is completed and operating licences are received. After a ramp-up period of a few years, annual mine production is expected to be 18 million pounds U_3O_8, with Cameco's share of production at almost 9 million pounds.

URANIUM MINING[1]

	Key Lake [2]		Rabbit Lake [2]		Highland [3]		Crow Butte [4]	
	1998	**1997**	**1998**	**1997**	**1998**	**1997**	**1998**	**1997**
Tonnes milled	323,832	315,282	441,430	373,862	N/A	N/A	N/A	N/A
Production (million lbs U_3O_8)	14.0	14.1	11.7	12.0	1.1	1.6	0.7	0.8
Recovery (%)	97.40	97.70	96.93	95.26	N/A	N/A	N/A	N/A
Average mill head grade (% U_3O_8)	2.01	2.09	1.23	1.52	N/A	N/A	N/A	N/A
Reserves at year end [5] (million lbs U_3O_8)	12.4	24.4	37.1	43.5	7.9	8.8	11.3	12.0
Employees	285	316	286	285	63	59	44	44

1 Total production for the year ending December 31.

2 Key Lake and Rabbit Lake ownership: Cameco is operator and owns 100%. Located in northern Saskatchewan. In 1997, Cameco owned 66.67%.

3 Highland ownership: Through its wholly owned subsidiaries, Cameco is operator and owns 100%. Since Highland processes in situ leach reserves in Wyoming, not all comparisons with Saskatchewan uranium operations are applicable. Power Resources, Inc. is operator.

4 Crow Butte ownership: Through its wholly owned US subsidiaries, Cameco (90%); Kepco Resources America Ltd. (10%). Since Crow Butte processes in situ leach reserves in Nebraska, not all comparisons with Saskatchewan uranium operations are applicable. Crow Butte Resources, Inc. is operator. In 1997, Cameco owned 32.309%

5 For further information, see the reserve tables on pages 20 and 21.

Fuel Services

Cameco owns and operates Canada's only uranium refining and conversion facilities, which are located in Ontario. The Blind River facility is the world's largest refinery where uranium concentrates are processed into high-purity uranium trioxide (UO_3), an intermediate product used as feed at Cameco's Port Hope conversion plants. The Port Hope facility is one of only four western world commercial suppliers of uranium hexafluoride (UF_6) which, after further processing, becomes the fuel used in most nuclear reactors. The Port Hope plant is also the only commercial supplier of natural uranium dioxide (UO_2) suitable for use as fuel in Canadian-made Candu reactors.

The Blind River facility is the world's largest uranium refinery producing high purity uranium trioxide (UO3) which is sent by truck to Cameco's Port Hope conversion plants for further processing.

Production of UO_3 at Blind River was 12,031 tonnes in 1998, while at Port Hope the combined production of UO_2 and UF_6 was 11,169 tonnes.

In 1998, Cameco reached an agreement with International Uranium Corporation of Denver, Colorado for the processing of certain uranium-bearing products from Blind River and Port Hope at the company's White Mesa mill in Blanding, Utah. The agreement, which has received regulatory approval from both countries, includes the processing of inventory stored at the Cameco sites and uranium-bearing products currently being produced at the facilities.

Technology Development and Special Projects Cameco's special projects and technology development departments made progress in preparing for piloting of feed production for the atomic vapour laser isotope separation (AVLIS) project in 1998 and expect to begin the pilot demonstration in 1999.

AVLIS is a new uranium enrichment process that is being developed by the United States Enrichment Corporation (USEC) which has indicated a plan for full commercial deployment by 2007. Enrichment is an essential step in producing nuclear fuel from natural uranium for light-water reactors. Cameco and USEC have formed a partnership to develop the process to produce feed material for AVLIS.

Fuel Services

	Blind River [1]	(UO_3)	Port Hope [1]	(UF_6 and UO_2)
	1998	1997	1998	1997
Production (tU)	12,031	12,195	11,169	12,594
Cameco employees	96	102	271	277

[1] Cameco is operator and owns 100%.

Total Uranium Reserves and Resources

Underground, Open Pit and In Situ Leach (as of December 31, 1998)	**Total** (million lbs U_3O_8)	**Cameco's Share** (million lbs U_3O_8)
Total Reserves	740.5	488.3
Total Resources	370.3	307.5

Uranium Reserves and Resources

Underground and Open Pit [1] (as of December 31, 1998)	**Mining Method** [2]	**Tonnes** (thousands)	**Grade** (% U_3O_8)	**Total** (million lbs U_3O_8)	**Cameco's Share** (million lbs U_3O_8)
Reserves					
Cigar Lake [3]	UG	1,176	13.60	353.3	172.2
Key Lake [4]	OP	501	1.12	12.4	12.4
McArthur River [5]	UG	668	17.33	255.2	213.8
Midwest [6]	UG	361	4.50	35.8	7.2
Rabbit Lake [7]					
Collins Bay A-zone [8]	OP	49	7.43	7.9	7.9
Collins Bay B-zone [8]	OP	20	0.39	0.2	0.2
Eagle Point [9]	UG	1,248	1.05	29.0	29.0
Total Reserves		**4,023**	**7.82**	**693.8**	**442.7**
Resources					
Dawn Lake [10]	UG	601	1.68	22.3	12.1
McArthur River [5]	UG	859	12.02	227.8	190.8
Midwest [6]	UG	57	4.64	5.9	1.2
Rabbit Lake [7]					
Eagle Point [9]	UG	300	0.95	6.3	6.3
Total Resources		**1,817**	**6.55**	**262.3**	**210.4**

1 All deposits in northern Saskatchewan.

2 Mining method is either underground (UG) or open pit (OP).

3 Cigar Lake ownership: Cameco (48.75%; voting 50.75%); Cogema Resources Inc. (36.375%); Idemitsu Uranium Exploration Canada Ltd. (7.875%); TEPCO Resources Inc. (5%) and Korea Electric Power Corporation (2% non-voting). Cigar Lake Mining Corporation is operator.

4 Key Lake: Cameco is operator and owns 100%. All Key Lake reserves are ore in stockpile.

5 McArthur River ownership: Cameco (83.766%); Cogema Resources Inc. (16.234%). Cameco is operator.

6 Midwest ownership: Cameco (20%); Cogema Resources Inc. (56%); Tenwest Uranium Ltd. (19.5%); OURD Canada Co. Limited (4.5%). Cogema is operator.

7 Rabbit Lake: Cameco is operator and owns 100%.

8 Collins Bay A-and B-zone reserves are ore in stockpile.

9 Approximately 19% of Eagle Point reserves is in stockpile.

10 Dawn Lake ownership: Cameco (54.136%); Cogema Resources Inc. (21.746%); PNC Exploration (Canada) Ltd. (19.448%); Korea Electric Power Corporation (4.67%). Cameco is operator.

Uranium Reserves and Resources [1]

In Situ Leach (as of December 31, 1998)	**Total (million lbs U_3O_8)**	**Cameco's Share (million lbs U_3O_8)**
Reserves		
Crow Butte [2]	11.3	10.2
Gas Hills [3]	18.1	18.1
Highland [3]	7.9	7.9
Peach [3]	4.6	4.6
Ruby Ranch [3]	4.8	4.8
Total Reserves	**46.7**	**45.6**
Resources		
Big Red [4]	6.1	3.0
Crow Butte [2]	27.8	25.0
Gas Hills [3]	52.9	52.9
Highland [3]	5.2	5.2
Peach [3]	4.0	4.0
Ruby Ranch [3]	2.0	2.0
Taylor Ranch [5]	10.0	5.0
Total Resources	**108.0**	**97.1**

1 Tonnes and grade are not listed for these deposits because they contain in situ leach reserves and/or resources which may be dissolved in place and pumped to surface rather than excavated.

2 Crow Butte ownership: Through a wholly owned US subsidiaries, Cameco (90%); Kepco Resources America Ltd. (10%). Located in Nebraska, US. Crow Butte Resources, Inc. is operator.

3 Through its wholly owned US subsidiaries, Cameco is operator and owns 100%. Located in Wyoming, US.

4 Big Red ownership: Through a wholly owned US subsidiary, Cameco is operator and owns 100%, subject to an option of PNC Exploration (USA) Inc. to earn up to a 50% interest in the joint venture by 2008. Located in Nebraska, US, adjacent to Crow Butte.

5 Taylor Ranch ownership: Cameco, through its wholly owned US subsidiary is operator and owns 50%; Cotter Corporation (50%). Located in Wyoming, US.

Ownership Changes

In 1998, Cameco acquired Uranerz Exploration and Mining Limited and Uranerz U.S.A., Inc. As a result, Cameco increased its ownership in Crow Butte (32.309% to 90%), Key Lake (66.67% to 100%), McArthur River (55.844% to 83.766%) Rabbit Lake (66.67% to 100%) and added a new property, Midwest (20%).

During summer drill programs, geologists and other exploration specialists live in camps like this one near Rabbit Lake, in Saskatchewan's resource rich Athabasca Basin.

Uranium Exploration

The type of high-grade uranium deposits targeted by Cameco's exploration program are the richest known to the mining industry, with values per tonne up to 10 times that of the highest-grade gold deposits. The targeted mineralization lies as deep as 900 metres below the surface and the presence of a deposit can be determined only by careful analysis of geoscientific information and drilling of the prospective zones.

Cameco spent approximately $15 million in 1998 on uranium exploration, with activities concentrated in the Athabasca Basin of northern Saskatchewan, the Arnhem Land region in Australia's Northern Territory and the Thelon Basin in Canada's Northwest Territories. Cameco and its partners had total land holdings of 3.4 million hectares at the end of 1998.

In 1999, spending on exploration activities, which will be focused on properties in Saskatchewan and Australia, is expected to be about $11 million.

Saskatchewan Cameco operates several joint venture exploration projects in the Athabasca Basin and has full ownership of other properties. In 1998, one of the larger exploration programs was at Dawn Lake, near Rabbit Lake, where Cameco carried out drilling as a followup to the discovery of interesting uranium grades in 1997. Although additional uranium was found, the economic potential of the deposit was judged to be limited.

In 1999, several drill targets will be tested at Read Lake with the goal of discovering a uranium deposit similar to the nearby McArthur River project.

Australia Cameco's Australian projects, the majority of which are in the Arnhem Land region, are in the early stages of exploration. Current federal and state governments support uranium exploration and development and Cameco has established excellent relations with aboriginal agencies in the region. Cameco's outstanding record of local employment and business development in Canada has facilitated the company's efforts to be the leading uranium explorer in Australia.

In Situ Leach Project

Inkai is an in situ leach project located in the Central Asian country of Kazakhstan. The project is owned and operated by Joint Venture Inkai comprised of Cameco (60%) and Kazatomprom (40%), a company owned by the government of Kazakhstan.

During 1998, Cameco and KazAtomProm reached agreement on development of the project that will allow it to proceed to the next phase of regulatory approval. Subject to the receipt of such approvals, further work is expected to be conducted in 1999 to delineate reserves with test mining expected to commence before the end of the year. Cameco has agreed to provide funding to Joint Venture Inkai of up to $40 million (US) for project development over the next several years.

PEOPLE AND COMMUNITY

Cameco strives to maximize the employment of local people and actively seeks local businesses to supply goods and services.

Almost 1,200 people, including Cameco and contractor employees, were working at Cameco's minesites in northern Saskatchewan in 1998—about half were residents of northern Saskatchewan and most of these were of aboriginal ancestry. This makes Cameco one of Canada's leading industrial employers of aboriginal people.

Cameco will continue to be guided by its commitment to local communities as it manages operational changes in the coming years. In November 1998, Cameco announced that it was reducing production at its Saskatchewan operations in response to uranium market pressures and to ensure a smooth transition to its future mines at McArthur River and Cigar Lake. As a result, a reduction in the company's work-force has also begun and will continue in 1999. However, Cameco will ensure that northerners will continue to represent about half of the permanent workforce at the company's Saskatchewan minesites. As the McArthur River and Cigar Lake projects move closer to full production, Cameco will increase northern participation.

The Kumtor gold operation employed approximately 1,600 people, including company and contractor employees in 1998. The number of local people in the workforce was maintained at 87%—the same as in 1997.

Cameco's commitment to purchasing competitively priced goods and services from local suppliers has allowed the company to enhance economic opportunities for communities near our operations. In 1998, Cameco purchased $153 million worth of goods and services in Saskatchewan, almost $95 million of that was spent in northern Saskatchewan. At Kumtor, more than $7.7 million was spent on materials within Kyrgyzstan and services were provided by 54 local contractors.

Jessie Royer of Montana won the inaugural Cameco Northern Lights Challenge in 1998. The 525-kilometre dog sled race raises funds to support the education of people with disabilities in northern Saskatchewan.
(photo courtesy Lawrence Koban)

Employment

(as of December 31, 1998)	Cameco	Cameco Gold	Kumtor Operating Company	Power Resources, Inc.	Long-Term Contractors	Total
Canada	1,303	14	–	–	502	1,819
United States	2	11	–	97	30	140
Kyrgyzstan	–	–	1,468	–	131	1,599
South America	3	–	–	–	–	3
Australia	4	–	–	–	–	4
Total	**1,312**	**25**	**1,468**	**97**	**663**	**3,565**

The Kumtor gold mine reached a milestone in October 1998 with the production of its millionth ounce of gold since operations began in 1997.

Profile

Cameco Gold is a wholly owned subsidiary of Cameco. From its head office in Toronto, the company directs a program of international exploration, development, acquisitions and strategic alliances.

Cameco Gold has exploration projects in North America and in Central and Southeast Asia. The company maintains a flexible and opportunistic approach in its corporate strategy. In 1998, Cameco Gold redefined its focus, establishing North America as its primary exploration target and concentrating on acquiring high-quality, late-stage projects.

Gold-related revenue accounted for about 20% of Cameco's total revenue in 1998.

Operations

Kumtor Kumtor is the largest, western-managed mining operation in the former Soviet Union. It is owned two-thirds by the Kyrgyz Republic and one-third by Cameco Gold and is operated by the Kumtor Operating Company, a wholly owned subsidiary of Cameco Gold.

The Kumtor gold mine reached a milestone in October 1998 with the production of its 1 millionth ounce of gold since operations began in 1997.

Total production in 1998 was about 645,000 ounces of gold at a cash cost of $179 (US) per ounce. Cameco Gold's share was 215,000 ounces.

The London Metal Exchange gold price averaged $294 (US) per ounce in 1998. At the end of the year, Kumtor had about 750,000 ounces hedged at an average realizable price of $307 (US) per ounce.

Contact Lake Total production in 1998 at the Contact Lake gold mine was about 29,000 ounces of gold at a cash cost of approximately $170 (US) per ounce. Mining ceased at the operation in April 1998 after reserves were depleted and milling was completed in June. Decommissioning of the site will continue in 1999.

Exploration

In 1999, Cameco Gold will continue to explore areas with proven potential for discoveries in Ontario and Quebec. Drill testing of identified gold mineralization is planned for five of six active projects. Cameco Gold's ownership in these projects ranges from 60% to 100%.

Eight projects will be actively explored in Nevada during 1999. Most of the projects are in the Carlin and Battle Mountain gold regions. One of the drill programs will concentrate on the Pinon project, in the South Carlin area, where there were encouraging results in 1998. As well, there will be a continuation of a deep drill program on the Ren project, which is adjacent to an existing high-grade mine.

In Kyrgyzstan, the company is evaluating and confirming previously found mineralization and anomalies in an area near Kumtor.

Gold Mining[1]

Kumtor[2]	1998	1997
Tonnes milled	5,254,378	4,022,828
Production (oz)	645,161	502,176
Recovery (%)	78.50	73.34
Average mill head grade (g/t)	4.77	5.55
Employees	1,468	1,001

[1]Total production for the year ending December 31.
[2]Kumtor ownership: Kumtor Mountain Company, a wholly owned subsidiary of Cameco Gold Inc., (33.33%); Kyrgyz Republic (66.67%). Kumtor Operating Company, a wholly owned subsidiary of Cameco Gold Inc., is operator.

Strategic Alliances

Cameco Gold is currently involved in two strategic alliances.

The company has a 19.5% interest in Menzies Gold NL of Australia and an exploration and development agreement which gives Cameco Gold the first opportunity to joint venture with Menzies in current and future projects. Menzies has been focusing its exploration activities on its Bau property in Sarawak, Malaysia. Two newly discovered mineralization zones contain resources of about 950,000 ounces of gold at an average grade of 2.1 grams per tonne. Exploration will focus on potentially higher-grade structures.

A second alliance is with Cascadia Mining Inc. on their Mongolian properties. Cascadia is an unlisted Canadian-controlled junior mining company. Cameco Gold holds a 22.3% equity position in Cascadia and has the option to acquire up to a 65% interest in the Mongolian properties through funding of exploration. The 1998 drill results were encouraging enough to warrant additional drilling in 1999.

Gold Reserves and Resources

(as of December 31, 1998)	Tonnes (thousands)	Gold g/t (oz/T)	Total (thousand oz)	Cameco's Share (thousand oz)
Reserves				
Kumtor [1]	28,330	4.88 (0.14)	4,447	1,482
Total Reserves			**4,447**	**1,482**
Resources				
Kumtor [1]	55,982	3.67 (0.11)	6,605	2,201
Total Reserves			**6,605**	**2,201**

[1] Kumtor ownership: Kumtor Mountain Company, a wholly owned subsidiary of Cameco Gold Inc., (33.33%); Kyrgyz Republic (66.67%). Kumtor Operating Company, a wholly owned subsidiary of Cameco Gold Inc., is operator.

Note: As of December 31, 1998, the total remaining open pit reserves were restated down to 4.4 million ounces and the resources were revised up to 6.6 million ounces. The grade for the remaining reserves has increased to 4.88 grams per tonne from 3.54. The reserves published since year-end 1994 were established using a gold price of $375 (US) per ounce while the current reserves are based on $325 (US) per ounce.

Base Metal Resources

(as of December 31, 1998)	Tonnes (thousands)	Gold g/t	Silver g/t	Copper %	Zinc %	Cameco's Share (thousand tonnes)
Resources						
Hanson Lake [1]						
Cu Zone	5,872	0.73	23.5	2.25	2.32	3,941
Zn Zone	7,208	0.36	25.0	0.46	7.10	4,836

[1] Hanson Lake ownership: Cameco (67.1%); Billiton Metals Canada Inc. (32.9%); Cameco is operator. In 1998, Cameco and Billiton granted an option-to-purchase to Foran Mining Corporation.

ENVIRONMENT AND SAFETY

Summer student Tamara Layton downloads data from a water monitoring station at the Cigar Lake project.

Environment

Cameco is committed to the protection of the environment and maintains a program of comprehensive sampling, compliance monitoring and long-term impact assessment.

The company is constantly expanding its knowledge base by conducting environmental research programs in areas such as waste rock, tailings geochemistry, sediment toxicity and ecological engineering.

There were a number of environment and safety developments throughout 1998.

Kumtor Operation In May 1998, a truck accident 78 kilometres from the Kumtor minesite in Kyrgyzstan caused 1,762 kilograms of sodium cyanide to escape into a small mountain river. The truck and its cargo were removed from the water less than six hours after the accident. The river water was clean and safe to use within hours of the cargo removal.

There were many unconfirmed media reports of illness, death and environmental damage in the following weeks. A scientific commission of international experts was assembled at the request of the Kyrgyz Republic. The commission concluded, among other things, that no one died and there were no confirmed illnesses as a result of the spill and there was no possibility of harmful exposure to cyanide in the air, in the soil or in the local water-supply channels located downstream from the accident.

Following the accident, the Kumtor operation has updated its environmental management systems, strengthened its emergency response procedures and launched a program to improve relationships and communication with local communities and governments.

McArthur River With the receipt of the remaining regulatory approvals earlier in the year, construction progressed well and Cameco is preparing to apply for an operating licence in 1999. The pre-operational baseline environmental work was essentially complete at year end.

Cigar Lake/Rabbit Lake In April 1998, the Saskatchewan and Canadian governments announced that the Cigar Lake uranium project was approved to proceed to the construction licensing phase.

Following an agreement in principle with the Cigar Lake joint venture, Cameco has submitted a proposal to the regulators for processing a majority of the Cigar Lake ore at the Rabbit Lake operation. The provincial and federal governments are developing environmental assessment guidelines and Cameco has initiated preparation of the necessary environmental impact statement.

Key Lake In 1997, the mined-out Deilmann pit was converted to a tailings facility. In 1998, Cameco received regulatory approval to change to a subaqueous (under water) method of tailings deposition. This method will be adopted for the placement of the tailings from McArthur River ore which will be milled at

By using nuclear energy instead of fossil fuels, the US prevents emissions of 146 million tonnes of CO_2 annually–equivalent to taking 94 million cars off the road.

Dallas, United States

Key Lake. This will shield the radiation associated with the McArthur River tailings and eliminate the possibility of tailings freeze up. Cameco also received regulatory approval to construct the McArthur River ore receiving station.

Contact Lake The Contact Lake mine began decommissioning work after mining was completed in late spring.

Summer student Roy Robillard and environment technician Tim Kopech take water samples from the fish habitat built by Cameco at the Rabbit Lake operation.

Industrial Safety

In 1998, employees and long-term contractors had 18 occupational lost-time accidents at all sites operated by Cameco and its subsidiaries. Regrettably, there was a fatality at Contact Lake prior to closure when a contractor employee was killed in a surface maintenance shop accident. The overall lost-time, accident frequency rate of 0.52 per 200,000 hours worked recorded by Cameco and its long-term contractors compares favourably to 1.10 for the Saskatchewan mining industry. Lost-time accidents are those in which the time lost as a result of work-related injury extends beyond the day of the injury and prevents employees from reporting to work on their next scheduled shift.

Cameco staff and long-term contractors at the Key Lake operation and Port Hope conversion plants were free of lost-time accidents during 1998. The Blind River refinery set a remarkable record of nine full years of operation without a lost-time accident on January 26, 1999. Also during 1998, the Blind River refinery achieved 1.5 million person hours without a lost-time accident while the Kumtor operation reached 1 million person hours.

Regulatory Matters

Federal regulations under the new Nuclear Safety and Control Act were published in October 1998. Cameco and other industry participants provided feedback on the regulations which will likely come into effect in late 1999. Under the new act, lower radiation exposure limits will be established, incorporating a formula that combines the doses of gamma radiation, radon and dust intake which an individual receives in a year.

Cameco-operated sites can meet these new standards. Even in the future high-grade mines at McArthur River and Cigar Lake, these new standards will be met through design features engineered into the mine and mill processes and through work practices developed at existing operations. Cameco will continue to search for new ways to further reduce exposure as operational procedures are refined.

RESULTS OF OPERATIONS 1998 COMPARED TO 1997[1]

Overview of operating year In the uranium and gold markets, 1998 was characterized by limited demand and weak prices. The effect of these conditions was to restrain revenue, profit and cash flow despite the acquisition of Uranerz Exploration and Mining Limited and Uranerz U.S.A., Inc. (Uranerz) and a full year's production from the Kumtor gold mine. The weakening of the Canadian dollar in 1998 partially offset the impact of the lower prices. In response to these conditions and to facilitate the transition to the new, richer, uranium orebodies, the company announced plans late in 1998 to conserve up to $200 million in cash primarily by restricting production over the next three years.

CONSOLIDATED FINANCIAL RESULTS

(in millions except per share amounts)	1998	1997	% Change
Revenue	$ 719	$ 643	+12
Earnings from operations	$ 104	$ 151	– 31
Net earnings*	$ 44	$ 82	– 46
Cash provided by operations	$ 235	$ 162	+45
Earnings per share	$0.76	$1.51	– 50
Cash flow per share	$4.11	$2.98	+38

*attributable to common shares

In 1998, after working capital changes, Cameco generated record cash from operations of $235 million ($4.11 per share) up 45% from 1997. The improvement primarily reflects the inclusion of financial results from the acquisition of Uranerz, a decline in uranium purchases and the receipt of interest payments on Cameco's subordinated loans to Kumtor Gold Company (KGC).

In 1998, Cameco's consolidated net earnings attributable to common shares were $44 million ($0.76 per share) compared to $82 million ($1.51 per share) in 1997. The 1998 earnings were impacted by reduced margins due to lower uranium prices and increased sales of higher-cost purchased uranium. In addition, the company wrote down $16 million in non-producing US uranium properties and $12 million to reflect a decline in the value of investments in gold activities not related to Kumtor. On an after-tax basis, these non-recurring writedowns total $24 million ($0.42 per share) and have no cash implications.

The segmented results of Cameco's two business operations follow:

Nuclear Business

Cameco's nuclear business consists of the exploration for and the development, mining, refining and conversion of uranium for sale as fuel for generating electricity in nuclear power plants.

Uranium market Only about 10 million pounds U_3O_8 were traded on the uranium spot market in 1998. This was about 7% of the western world's uranium consumption and less than half the volume traded in the previous year. The weak spot market was primarily due to lower utility and producer demand. Utilities in particular withdrew from the spot market for a variety of reasons including reductions in their inventories and deferred requirements.

[1] The financial and operational results include Uranerz Exploration and Mining Limited and Uranerz U.S.A., Inc. as of August 11, 1998, the date Cameco acquired these companies.

After opening the year at $12.05 (US) per pound U_3O_8 and stabilizing temporarily in the second quarter, the spot price drifted steadily toward its 1998 close of $8.75 (US), a decline of 27%.

Long-term contract price indicators published in the industry fell by 11% during 1998 to $11.10 (US) per pound U_3O_8, demonstrating more resilience than the spot price. Approximately 50 million pounds were contracted in the long-term market during the year, about 31% less than in 1997. This was primarily due to heavy contracting from 1995 to 1997 and perceptions that prices would remain low. Contributing factors to these perceptions included the selling of uranium inventory announced by both the United States Enrichment Corporation (USEC) and the US Department of Energy as well as the uncertainty surrounding the disposition of the uranium natural feed component resulting from the US-Russia highly enriched uranium agreement.

In the conversion market, spot prices also decreased by about 31% from $5.10 (US) per kilogram uranium as UF_6 at the close of 1997 to $3.50 (US) at the end of 1998.

In 1999, the contracting activity in both the spot and long-term market is expected to strengthen from the low levels of 1998. This should lead to firmer U_3O_8 and conversion prices.

Revenue In 1998, nuclear revenue rose to $576 million, including the effect of the Uranerz acquisition, an increase of 7% from 1997. This increase reflects higher U_3O_8 sales volumes which were up 10%, due to the acquisition. This was partially offset by a small decrease in the average realized U_3O_8 price reflecting the decline in the uranium spot price, mitigated somewhat by a weaker Canadian dollar.

Cameco's conversion revenues were relatively protected from changes in the UF_6 spot price as its contracts are typically based on fixed or base-escalated pricing terms. For the year, the combined UF_6 and UO_2 conversion sales volume was up about 6% while the average selling prices increased marginally.

FINANCIAL RESULTS – NUCLEAR

(in millions)	1998	1997	% Change
Revenue	$576	$540	+ 7
Cost of products and services sold	$337	$270	+25
Depreciation, depletion and reclamation	$ 88	$ 98	– 10
Exploration	$ 15	$ 15	0
Research and development	$ 3	$ 2	+50

In 1999, Cameco's nuclear revenue is expected to increase modestly. Approximately 60% of the uranium sales revenue will be sensitive to the spot price. A $1.00 (US) increase in the U_3O_8 spot price would increase revenue by $18 million (Cdn) and net earnings by $7 million (Cdn). Fluctuations in foreign currency exchange rates are not expected to materially impact the company's revenue during 1999 as a result of the company's currency hedging program.

For delivery over the next decade, the company currently has more than 100 million pounds U_3O_8 and 50,000 tonnes of uranium conversion under contract. This contract position provides a significant measure of predictability to the company's revenue and cash flow.

Cost of products and services sold The cost of products and services sold rose to $337 million in 1998 including the cost of products associated with Uranerz. This was an increase of 25% from the

previous year, reflecting the higher sales volumes. In addition, the company sold about 40% more purchased uranium which generally carries a higher cost than the company's own production. The unit cost of conversion services also rose slightly in 1998.

In 1999, unit production costs at the Saskatchewan mines are expected to increase due to a revised operating plan announced in November 1998. The new operating plan is in response to the low uranium spot market price and assures a smooth transition to the new mining operations currently under development. In the summer of 1999, an extended shutdown is slated for the Key Lake operation. At Rabbit Lake, mining activity will be suspended in early 1999 and milling operations will be reduced to half capacity for the next two years. The company expects that the new plan will conserve up to $200 million in cash over the next three years.

Depreciation, depletion and reclamation Depreciation, depletion and reclamation declined 10% to $88 million in 1998 compared to $98 million a year earlier reflecting increased sales of purchased uranium and inventory acquired from Uranerz. Depreciation is allocated to inventory which is produced, not acquired.

Uranium exploration Spending on exploration in 1998 remained unchanged from 1997, at $15 million. In 1999, uranium exploration expenditures are expected to be reduced. Efforts will focus on Canada and Australia where Cameco believes the best prospects are located.

Gold Business

Revenue Revenue from gold operations in 1998 was $143 million compared to $103 million in the previous year. Cameco's total gold sales of 239,801 ounces in 1998 were 38% higher than the previous year. 1998 was the first full year of production from the Kumtor gold mine and the last year of production from the Contact Lake gold mine. In both 1998 and 1997, revenue included approximately $5 million in management fees which Cameco earned as operator of the Kumtor mine.

The company realized an average price of $563 per ounce, ($380 (US)) in 1998. This is only a marginal decrease from 1997 because the lower US dollar gold prices were offset by the effect of a weaker Canadian dollar. Cameco's gold hedging program generated a premium of $86 (US) per ounce compared to the average price of $294 (US) posted on the London Metals Exchange (LME) during 1998.

For 1999, Kumtor gold production is anticipated to be in excess of 600,000 ounces (Cameco's share is one-third). Gold revenue is anticipated to decline as favourable hedge positions expire. As of December 31,

FINANCIAL RESULTS – GOLD

(in millions)	1998	1997	% Change
Revenue	$143	$103	+39
Cost of products and services sold	$ 64	$ 46	+39
Depreciation, depletion and reclamation	$ 39	$ 25	+56
Exploration	$ 16	$ 18	–11
Gold sales (ounces)	239,801	173,354	+38
Average selling price ($Cdn/oz)	$563	$569	–1
Average selling price ($US/oz)	$380	$410	–7

1998, Kumtor Gold Company had about 750,000 ounces hedged at an average realizable price of $307 (US) per ounce. In addition to these hedged positions, KGC has deferred revenue of $24 (US) per ounce, which is expected to be recognized in 1999 and 2000. By comparison, at December 31, 1997, Kumtor had about 710,000 ounces hedged at an average realizable price of $346 (US) per ounce.

Cost of products and services sold The Kumtor gold mine produced 645,161 ounces (Cameco's share 215,054 ounces) in 1998. Kumtor's strong operating performance resulted in cash costs of about $179 (US) per ounce. Production at the Contact Lake mine was 29,331 ounces (Cameco's share 19,554 ounces) in 1998.

Early in 1998, the Contact Lake mine was closed as the orebody was depleted. Milling was completed in June and decommissioning of the site has commenced. During its mine life, Contact Lake produced 190,000 ounces.

Depreciation, depletion, and reclamation Depreciation, depletion and reclamation increased by 56% to $39 million in 1998 compared to $25 million in 1997. The two significant influences were the higher volume of Kumtor sales partially offset by reduced volumes for Contact Lake. A weaker Canadian dollar also contributed to the higher depreciation amounts as Kumtor costs are recorded in US dollars. In 1999, the per ounce depreciation rate for Kumtor is expected to increase significantly as a result of the restatement of reserves.

Restatement of Gold Reserves and Resources With the persistently low gold price, the company has restated the Kumtor reserves.

As of December 31, 1998, the total remaining open pit reserves have been restated down to 4.4 million ounces and the resources have been revised up to 6.6 million ounces. The average grade of the remaining reserves has increased to 4.88 grams per tonne.

The reserves published since year-end 1994 were established using a gold price of $375 (US) per ounce while the current reserves are based on $325 (US). The LME gold price averaged $294 (US) in 1998. Although the quantity of reserves has been decreased, the cash flow analysis based on the higher grade indicated that no writedown of the carrying value was required.

Kumtor Reserves and Resources

	Dec. 31 1998	Dec. 31 1997	Change
Reserves (million ounces)	4.4	8.6	– 3.4*
Grade of reserves (grams per tonne)	4.88	3.54	+1.34
Resources (million ounces)	6.6	3.9	+2.7
Grade of resources (grams per tonne)	3.67	3.75	– 0.08

*adjusted for 1998 production

Exploration Gold exploration expenditures of $16 million in 1998 were down from the $18 million spent in 1997. A further reduction is expected in 1999 as the program is refocused on North America.

Non-Segmented Expenses

Administration In 1998, the cost of administration rose $12 million to about $40 million. Of this increase, $6 million related to non-recurring severance charges at Rabbit Lake and $2 million related to costs no longer reimbursed by Uranerz which was Cameco's joint venture partner in the past. In 1999, administration costs are expected to decline in total even when approximately $4 million in Rabbit Lake care and maintenance charges are included. In addition, a review of corporate office costs currently in progress may contribute further to this expected reduction.

Interest Net interest income decreased by $6 million to $2 million in 1998. Interest expense increased because of higher debt levels in 1998 and accounting for a full year of Kumtor interest expense. In 1997, interest on the Kumtor project for the first third of the year was capitalized as the mine was still under construction.

In 1999, net interest expense is expected to rise further reflecting the higher debt levels incurred in 1998 and the completion of development at the McArthur River mine. As this mine enters the operating phase, the associated interest costs will no longer be capitalized but instead will be expensed against operating earnings.

Writedown of mineral properties The company reviewed its US non-producing in situ leach properties in light of the uranium market environment and new geological interpretation. It concluded that the carrying values of certain properties should be written down. Accordingly, a provision of $16 million ($12 million after tax) was made.

Other income and expenses In 1998, expenses of $12 million resulted from the writedown of carrying values for investments in gold activities not related to Kumtor. By comparison, in 1997, expenses of $4 million were recorded.

Cash Resources

Operating activities in 1998 generated net cash flows, after changes in working capital, of $235 million ($4.11 per share) compared to $162 million ($2.98 per share) a year earlier. The improvement reflects

Summary of Cash

(in millions)	1998	1997
Cash, beginning of year	$ 110	$ 15
Cash provided by operations	$ 235	$ 162
Cash from new financings		
– debt facilities, net	$ 253	$ 86
– securities	$ 180	$ 198
Investments in		
– business assets	$ (548)	$ (156)
– property, plant and equipment	$ (159)	$ (126)
Payment of dividends	$ (29)	$ (27)
Other	$ (6)	$ (42)
Cash, end of year	$ 36	$ 110

primarily the inclusion of financial results from the Uranerz acquisition, a decrease in uranium purchases, and the receipt of interest payments from Cameco's subordinated loans to KGC. The payment received included all interest accrued to December 1, 1998.

The company invested $694 million in 1998, mostly for the acquisition of Uranerz, a 6.45% interest in Energy Resources of Australia and capital expenditures including $120 million for the development of McArthur River and Cigar Lake mines. This compares with $325 million invested in 1997 for the purchase of Power Resources, Inc. (PRI), capital expenditures and completion of Kumtor mine development.

In 1998, expenditures were financed primarily by a combination of cash from operations of $235 million, a net increase of $253 million in debt financing, and net proceeds of $177 million from the issue of preferred securities in the US market.

In 1997, financing activities raised a net of $258 million. Most of this funding reflects Cameco's public share offering of 4 million common shares which yielded net proceeds of $198 million. In addition, an increase in debt was required to finance other activities.

The McArthur River mine is expected to enter commercial operations in late 1999. The company announced in early 1999 that the reserves at McArthur River increased by 35% to 255 million pounds U_3O_8. Reserves and resources now total 483 million pounds of which Cameco's share is 84%.

Cameco plans to spend $168 million on mine development in 1999. Approximately $120 million is expected to complete the development of the McArthur River mine. A further $25 million is expected to go toward mine development at Cigar Lake while mine testing continues in waste rock and a detailed feasibility study is prepared. In addition, there is another $32 million planned for plant modifications and sustaining capital projects. About $27 million will be allocated to the nuclear business segment to fund plant modifications and major maintenance projects at existing minesites and conversion facilities. A further $5 million is slated for gold operations.

CAPITAL AND DEVELOPMENT EXPENDITURES

(in millions)	Planned 1999	Actual 1998
Mine development	$ 168	$ 147
Plant modifications and sustaining capital	$ 32	$ 12
Total	$ 200	$ 159

Regarding Cigar Lake, the company expects to decide, with its joint venture partners, in 1999 on a milling strategy for the processing of ore at the McClean Lake and Rabbit Lake facilities. In addition, Cigar Lake plans to apply for a mine construction licence in late 1999.

LIQUIDITY AND CAPITAL RESOURCES

Overview Liquidity is the ability of the company to mobilize cash to fund its exploration, development and operating work plans. Important measures of liquidity include the company's operating cash flows, current ratio and the total debt to capitalization ratio.

Debt Cameco has agreements in place with a number of lending institutions that provide access to approximately $1.0 billion in unsecured lines of credit. These arrangements provide operational liquidity

(including backup for Cameco's $400 million commercial paper program), funding for capital expenditures and financial assurances for future reclamation obligations. They include two long-term revolving credit facilities, for $400 million and $350 million, a $55 million short-term revolving credit facility and $217 million in overdraft and letters of credit facilities. Interest rates under these facilities vary and currently range from approximately 5.3% to 6.0% per annum. For the terms and conditions applicable to these agreements, see note 8 to the consolidated financial statements.

Approximately $427 million of these facilities was unused at December 31, 1998.

As credit facilities mature, it is the company's intent that they will be refinanced to the extent necessary in order to meet liquidity requirements.

Cash provided by operations is expected to be sufficient to fund budgeted additions to property, plant and equipment in 1999. Consequently, debt levels are not expected to change materially during the year.

MEASURES OF LIQUIDITY

	1998	1997	1996	1995	1994
Cash provided by operations ($ millions)	235	162	178	133	176
Current ratio	2.8	2.0	4.2	3.6	3.6
Total Debt/Capitalization (%)	24	14	12	13	5

Preferred securities On October 14, 1998, Cameco completed a $125 million (US) capital markets debt issue in the form of unsecured junior subordinated debentures. Proceeds were used to refinance a portion of the debt related to the Uranerz acquisition.

Kumtor Gold Company To finance the Kumtor gold project, a consortium of financial institutions advanced $285 million (US) in senior and subordinated loans to the project in 1996. During 1998, KGC repaid principal amounts of $25 million (US). Since Cameco proportionately consolidates its interest in KGC, $87 million (US) ($133 million (Cdn)) of the remaining loans are included in Cameco's long-term debt balance. See note 19 to the consolidated financial statements.

In addition, Cameco has invested $45 million (US) as an equity contribution and provided a subordinated loan under which outstanding advances at the end of 1998 amounted to $107 million (US). While the Kumtor credit facilities are an obligation of KGC, Cameco has agreed to guarantee the payment of all amounts of principal and interest that become due on the senior debt component. This guarantee does not apply in the case of certain events of political force majeure, which are covered by political risk insurance purchased on behalf of some lenders and self-insured by other lenders. See note 8 to the consolidated financial statements.

As part of the Kumtor financing arrangements, KGC must maintain a debt reserve bank account in an amount equal to one semi-annual principal payment plus six months of interest payments. At December 31, 1998, Cameco's net share of this cash reserve totalled $16 million (Cdn).

Cameco is bound by certain financial covenants that are present in its credit facilities and in those of Kumtor. These covenants place restrictions on total long-term debt, including guarantees, and set minimum levels for net worth. As of December 31, 1998, Cameco met such covenant tests and does not expect its planned operating and investing activities in 1999 to be constrained by them.

ENVIRONMENT

Decommissioning and reclamation To ensure that the work plans associated with future reclamation projects are funded, the province of Saskatchewan and other jurisdictions require that mining companies provide financial assurances. Cameco has provided such assurances through letters of credit totalling $131 million. Formal financial assurances are not currently required for the conversion plants. However, under the new Nuclear Safety and Control Act which may take effect in late 1999, Cameco would be required to provide additional financial assurances through letters of credit totalling an estimated $78 million.

For 1998, decommissioning and reclamation charges of $18 million have been charged to current production and accumulated in an accounting provision. Actual expenditures on decommissioning and reclamation activities for the year amounted to $12 million and were deducted from this provision. At the end of 1998, the accounting provision for future reclamation costs totalled $106 million. See note 9 to the consolidated financial statements.

Environmental accident In May 1998, a trucking accident in Kyrgyzstan, Central Asia resulted in a spill of 1,762 kilograms of sodium cyanide into a small river. The truck was en route to the Kumtor gold mine. Following the accident, a scientific commission of international experts was assembled to assess the impact. The commission released its report to the public in September 1998 and concluded, among other things, that no one died as a result of the spill and there was no possibility of harmful exposure to cyanide in the air, in the soil or in local watering ditches.

Despite the findings of the international experts, a separate commission established by the Prime Minister of Kyrgyzstan determined that damages as a result of the accident amounted to $4.6 million (US). Subsequently, KGC reached a formal settlement with the government of Kyrgyzstan. In January 1999, the agreement was submitted to a tribunal of the American Arbitration Association which reviewed the terms of settlement and confirmed them as fair and reasonable. To build better relationships with the local villages, mine officials and local mayors have established a liaison committee. The mine operations were not disrupted by the accident. After insurance proceeds, the cost to Cameco was not material.

RESULTS OF OPERATIONS 1997 COMPARED TO 1996

CONSOLIDATED FINANCIAL RESULTS

(in millions except per share amounts)	1997	1996	% Change
Revenue	$ 643	$ 591	+ 9
Earnings from operations	$ 151	$ 145	+ 4
Net earnings	$ 82	$ 138	– 41
Earnings per share	$1.51	$2.60	– 42

In 1997, Cameco's consolidated net earnings were $82 million ($1.51 per share), compared to $138 million in 1996. This reduction was due primarily to the introduction of a non-cash income tax expense. Net earnings were also impacted by lower uranium selling prices, partially offset by an increased volume of gold sales.

Cameco posted earnings from operations of $151 million, an increase of $6 million over 1996 despite a significant decline of approximately 23% in the average U_3O_8 spot price in 1997 from 1996. Earnings from operations exceeded 1996's record levels due to significantly increased gold sales which resulted from the commencement of production at Kumtor.

The segmented results of Cameco's two business operations were as follows:

Nuclear Business

Cameco's nuclear business consisted of the exploration for and the development, mining, refining and conversion of uranium for sale as fuel for generating electricity in nuclear power plants.

Revenue In 1997, revenue from its nuclear business declined by 4% to $540 million in comparison to 1996. Although Cameco sold uranium only in the long-term market, approximately 60% of its 1997 deliveries were impacted by the U_3O_8 spot price.

The uranium spot price fell by $4.50 (US) per pound U_3O_8 over the course of the first eight months of 1997 to a low of $10.20 (US), and then rebounded by $1.85 (US) to end the year at $12.05 (US). In part, the spot market was influenced by weak demand because utilities filled their 1997 uranium requirements through 1996 spot market purchases or long-term contracts. In addition, there was some aggressive selling by a few suppliers. Overall this resulted in a market with thin demand and excess supply.

FINANCIAL RESULTS – NUCLEAR

(in millions)	1997	1996	% Change
Revenue	$ 540	$ 561	– 4
Cost of products and services sold	$ 270	$ 280	– 4
Depreciation, depletion and reclamation	$ 98	$ 88	+11
Exploration	$ 15	$ 11	+36
Research and development	$ 2	$ 3	– 33

The fall in spot prices resulted in an 8% decline in Cameco's average realized selling price for uranium concentrates. This was offset somewhat by an increase in uranium concentrate sales volume of almost 5%, making 1997 a record year for uranium sales volume by the company.

On a pro forma basis in 1997, a $1.00 (US) change in the U_3O_8 spot price throughout the year would have increased revenue by $12 million compared to $14 million in 1996. In 1997, the $12 million impact on revenue from a $1.00 (US) increase in the U_3O_8 spot price would have translated to about $4 million in additional net earnings. In 1996, because Cameco was not required to record an income tax expense, most of the $14 million impact on revenue would have been reflected in net earnings.

The average selling price realized for conversion services was up almost 4% in 1997 from 1996, although sales volumes were down by almost 8%. Spot and long-term prices for conversion services weakened in the last quarter of 1997 due to the perception of excess supply from the conversion component of the uranium displaced as a result of the dismantling of Russian weapons.

Cameco's earnings were also affected by the relationship between the Canadian and US dollars. A $0.01 (US) increase in the Canadian dollar would have decreased 1997 nuclear revenue by $6 million compared to $7 million in 1996.

Cost of products and services sold The costs of products and services sold in 1997 including depreciation, depletion and reclamation remained unchanged at $368 million as compared to 1996. Higher costs associated with increased volume of uranium concentrate sales were offset by lower royalty costs and lower costs of sales for conversion services.

Uranium Exploration Exploration expenditures increased by 36% in 1997 to $15 million, reflecting Cameco's objective to expand its reserve base globally, particularly in Australia.

Gold Business

Revenue Cameco's gold business generated revenue of $103 million in 1997, up $73 million from 1996, reflecting the startup of the Kumtor gold mine. About $98 million of 1997 gold revenue was derived from Cameco's share of Kumtor and Contact Lake production sales. The remaining $5 million was attributable to management fees that Cameco earned as operator of the Kumtor project.

These results compare to $30 million of gold revenue in 1996. About $24 million of 1996 gold revenue was derived from Cameco's share of the Contact Lake production sales. The remaining $6 million was attributable to management fees that Cameco earned as operator of the Kumtor project.

Cost of products sold Kumtor exceeded expectations in 1997 by producing more than 502,000 ounces of gold (Cameco's share 167,000 ounces) at cash costs below $200 (US) per ounce which includes 79,000 ounces (Cameco's share 26,000 ounces) produced during the commissioning phase. The revenue from the sale of these 79,000 ounces was credited against the commissioning costs.

The results from Contact Lake did not meet expectations with production of 53,000 ounces of gold (Cameco's share 35,000 ounces) in 1997. Lower than anticipated ore grades resulted in reduced production and higher unit costs.

FINANCIAL RESULTS – GOLD

(in millions)	1997	1996	% Change
Revenue	$ 103	$ 30	+243
Cost of products and services sold	$ 46	$ 18	+156
Depreciation, depletion and reclamation	$ 25	$ 7	+257
Exploration	$ 18	$ 18	0
Gold sales (ounces)	173,354	40,414	+329
Average selling price ($Cdn/oz)	$ 569	$ 589	–3

Exploration In 1997, gold exploration expenditures were unchanged from 1996 at $18 million. Cameco's goal was to expand its gold production through a combination of exploration and acquisition. With gold prices falling significantly, Cameco's efforts were focused on acquisition opportunities and less on exploration.

Non-Segmented Expenses

Administration expenses rose by 17% to $27 million in 1997. This increase was due primarily to the inclusion of Cameco's new US subsidiary, Power Resources, Inc. As a percentage of revenue, administrative expenses remained essentially unchanged at approximately 4%.

In addition to cash taxes, a deferred income tax expense was recorded for the first time in 1997, significantly increasing the total tax expense to $65 million from $5 million in 1996.

Cash Resources

During 1997, operating activities generated net cash flows, after changes in working capital, of $162 million ($2.98 per share) compared to $178 million ($3.37 per share) in 1996. Cash utilized in the management of working capital contributed to this decline. In particular, an active program to purchase for inventory was initiated to backstop the upcoming period of transition to the new mines at McArthur River and Cigar Lake.

Cash used in investing activities increased by $163 million to $325 million in 1997 compared to 1996. This increase was primarily due to the acquisition of PRI and additional loans made to KGC. About $126 million in cash was used for net additions to property, plant and equipment of which $76 million was spent on the McArthur River and Cigar Lake uranium development projects.

Cash provided by financing activities amounted to $258 million in 1997, an increase of $274 million compared to 1996. The majority of this increase reflected Cameco's public share offering of 4 million shares which yielded net proceeds of $198 million. In addition, an increase in debt was required to finance the purchase of PRI.

QUARTERLY FINANCIAL RESULTS

(millions except per share amounts)	Q1 98	Q2 98	Q3 98	Q4 98	**Year 1998**	Q1 97	Q2 97	Q3 97	Q4 97	**Year 1997**
Revenue	132	157	202	228	**719**	114	162	187	180	**643**
Operating earnings	26	33	36	9	**104**	27	46	40	38	**151**
Net earnings	18	19	18	(11)	**44**	14	28	21	19	**82**
Earnings per share	.31	.34	.32	(.21)	**.76**	.27	.53	.39	.32	**1.51**
Cash from operations	22	59	(15)	169	**235**	(4)	11	46	109	**162**
Capital expenditures	25	36	58	40	**159**	22	46	39	19	**126**

RISKS AND UNCERTAINTIES

Market Prices

Uranium concentrates The company's revenue is impacted by changes in uranium volumes and prices. Utilities can vary delivery volumes within a limited range as prescribed in each contract. Uranium prices are affected by a number of factors outside the company's control, such as demand for nuclear power, political and economic conditions in uranium producing and consuming countries, sales of excess inventory, production levels, costs of production, environmental considerations, and governmental regulations and policies.

The company attempts to mitigate the effects of these factors on price volatility by maintaining a long-term contract portfolio which is diversified by price mechanism, delivery date and geographic location of customers. For 1999, the company's sensitivity to changes in the uranium spot price is estimated above in the nuclear business - revenue section.

Advanced laser-based enrichment technology The next generation of uranium enrichment technology is presently being developed. The atomic vapour laser isotope separation (AVLIS) process does not require uranium hexafluoride (UF_6) feedstock. If this technology becomes commercially viable, the demand for

UF_6 conversion services could be reduced. As a partner with USEC, Cameco is developing the feedstock for the AVLIS program which, according to USEC, may be commercially deployed in 2007.

Gold Cameco's revenue is affected by changes in the market price of gold which are driven by factors outside the company's control. Cameco actively hedges the price of gold through forward sales contracts to mitigate fluctuations in the market price of gold. Kumtor's ability to meet its financial obligations is heavily dependent on the future price of gold. As the major financial supporter of Kumtor, Cameco similarly is exposed to future gold prices.

Financial Risk

Cameco engages in a currency hedging program to mitigate risks associated with fluctuations of the US dollar relative to the Canadian dollar. At December 31, 1998, Cameco had sold forward $478 million (US) at an average rate of approximately $1.51 per US dollar as a hedge of future cash flows denominated in US dollars.

The company has a policy to actively hedge the price of gold through a combination of forward sale and option contracts. KGC hedges the price risk for gold in its own name. At year end, it had in place forward sale and put option agreements on about 750,000 ounces at an average realizable price of $307 (US) per ounce which hedge a portion of planned production. As part of these hedging activities, KGC also sold call options on 320,000 ounces that will result in a maximum price of $380 (US), if exercised. These call options expire in 1999 and 2000.

The company has unrecognized gains on forward sale contracts for gold of $18 million. Also, deferred charges or losses on foreign currency exchange contracts of $27 million are discussed in note 6. Portions of these gains and losses will be recognized in 1999.

All of the company's derivative transactions involve credit exposure to financial institutions. The company manages this risk by setting exposure limits in proportion to credit worthiness as determined by external credit rating agencies which are relied upon to assess the financial integrity of counterparties.

Cameco acquires political risk insurance to protect certain of its investments. For example, because the Kumtor gold mine is located in Kyrgyzstan, it faces the possibility of adverse political and economic developments in that country. Consequently, the company has purchased political risk insurance that covers 90% of both its subordinated loan and equity contribution in KGC. With respect to Kumtor gold operations, Cameco also benefits from the involvement of international multilateral financing agencies in KGC, whose presence in the project indirectly supports all participants.

Operations Risk

The company's production profile in northern Saskatchewan is presently in transition as reserves are being depleted at the Key Lake and Rabbit Lake sites and a new generation of mines is being launched at McArthur River and Cigar Lake. These new, high-grade deposits are at depths of 400 to 600 metres. Technical challenges exist involving ground water, rock properties, and radiation protection.

To ensure the continuation of contracted deliveries, the company has maintained a substantial inventory of uranium concentrates. The drawdown of this inventory will be co-ordinated with anticipated production from McArthur River and Cigar Lake.

McArthur River must obtain an operating licence from the federal authorities before startup in late 1999. An environmental impact statement for the processing of Cigar Lake ore at the Rabbit Lake mill is expected to be filed with the regulators during the summer of 1999. Cigar Lake is also waiting for federal-provincial government licensing to begin construction. The timing of these projects depends, in part, on receiving these government permits and approvals.

Failure to resolve technical issues or significant delays in obtaining permits and licences could have an adverse effect on the company's future prospects.

Cameco invests in a comprehensive insurance program to manage risk in its operations and reduce its exposure to potential liabilities.

Year 2000 Uncertainty

Cameco's year 2000 readiness program was formally launched in 1997. The initial focus was to implement the remedial actions required to rectify deficiencies in corporate management information systems. In 1998, the program expanded into an enterprise-wide initiative with an emphasis on mobilizing resources throughout the corporation to support the identification and resolution of issues related to imbedded systems and industrial automation.

Cameco defines year 2000 conformity to mean that neither performance nor functionality of any computer system or device will be affected by dates prior to, during and after the year 2000.

Cameco has identified five primary areas of concern which the year 2000 readiness program has been mandated to address:

- information technology infrastructure and centralized business systems
- end user work station systems
- imbedded and industrial automation systems
- business-partner readiness, and
- contingency planning.

As of early 1999, Cameco's overall readiness program has substantially completed its corporate-wide assessment of the year 2000 issue. The assessment indicates that the risk of year 2000 related disruptions to Cameco's business is low. It is expected that the majority of its systems and operations will be year 2000 ready by April 1999. A small number of exceptions are targeted for completion by mid-1999 during routine maintenance shutdowns. Third-party consultations have commenced with business suppliers and customers and will continue during 1999. The assessment also indicated that this area of business-partner readiness holds the highest risk potential.

The contingency plan, which will be developed in mid-1999, is expected to address risk analysis and preparations to handle any unusual operating situations which might occur during and after the actual 1999 year end.

Total expenses attributable to Cameco's year 2000 readiness program are currently anticipated to be less than $1 million including internal salaries and wages, consulting services, and hardware and software purchases. These expenses are not expected to have a material effect on the company's operating results

or financial position. However, given the risks associated with third-party services and systems, business interruptions could occur that may have a material adverse effect on the company's operating results or financial condition.

Contingencies

See note 24 to the consolidated financial statements for a discussion of contingencies and commitments. With reference to note 24 (a), the applicable regulatory authorities have not yet established a defined plan or time schedule for carrying out the reclamation of any of the related sites.

Caution Regarding Forward-Looking Information

The statements in the management's discussion and analysis which relate to the future are forward-looking statements and are subject to a number of risks and uncertainties. The company's results in the future may differ materially from those which are expressed or implied by these forward-looking statements.

Important factors which could cause differences include the sensitivity of the company's revenue to market prices of uranium and gold; competition; the impact of changes in foreign currency exchange rates; environmental considerations; political developments, particularly in the developing countries in which the company operates; changes in government regulations and policies including trade laws; demand for nuclear power; replacement of production; and receipt of permits and approvals from governmental authorities.

Report of Management's Accountability

The accompanying consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada.

Management is responsible for ensuring that these statements, which include amounts based upon estimates and judgment, are consistent with other information and operating data contained in the annual report and reflect the corporation's business transactions and financial position.

The integrity and reliability of Cameco's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and appropriate delegation of authority and division of responsibilities. Internal accounting controls are monitored by the internal auditor. Cameco's code of ethics, which is communicated to all levels in the organization, requires employees to maintain high standards in their conduct of the corporation's affairs.

Our shareholders' independent auditors, KPMG LLP, whose report on their examination follows, have audited the consolidated financial statements in accordance with generally accepted auditing standards.

The board of directors annually appoints an audit committee comprised of directors who are not employees of the corporation. This committee meets regularly with management, the internal auditor and the shareholders' auditors to review significant accounting, reporting and internal control matters. Both the internal and shareholders' auditors have unrestricted access to the audit committee. Following its review of the financial statements and the report of the shareholders' auditors, the audit committee submits its report to the board of directors for formal approval of the financial statements.

Original signed by David M. Petroff
Senior Vice-President, Finance and Administration
and Chief Financial Officer
February 1, 1999

Auditors' Report

To the Shareholders of Cameco Corporation

We have audited the consolidated balance sheets of Cameco Corporation as at December 31, 1998 and 1997 and the consolidated statements of earnings, retained earnings and cash flow for each of the years in the three year period ended December 31, 1998. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1998 in accordance with generally accepted accounting principles in Canada.

Original signed by KPMG
Chartered Accountants
Saskatoon, Canada
February 1, 1999

Consolidated Balance Sheets

As at December 31	1998	1997
	(Thousands)	
Assets		
Current assets		
Cash	$ 36,466	$ 109,722
Accounts receivable [note 3]	124,247	111,584
Inventories [note 4]	344,451	298,708
Supplies and prepaid expenses	51,467	37,785
	556,631	557,799
Property, plant and equipment [note 5]	1,989,011	1,342,728
Long-term receivables, investments and other [note 6]	210,160	188,696
Inventories [note 4]	182,805	181,479
Total assets	**$ 2,938,607**	**$ 2,270,702**
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term debt [note 7]	$ 32,651	$ 143,650
Accounts payable and accrued liabilities	116,335	93,831
Dividends payable	7,207	7,181
Current portion of long-term debt [note 8]	28,631	14,016
Current portion of other liabilities [note 10]	14,406	26,553
	199,230	285,231
Long-term debt [note 8]	540,116	129,065
Provision for reclamation [note 9]	105,995	87,976
Other liabilities [note 10]	19,052	19,147
Deferred income taxes	170,940	57,050
	1,035,333	578,469
Shareholders' equity		
Preferred securities [note 11]	186,985	–
Share capital [note 12]	687,658	684,792
Contributed surplus	496,745	496,745
Retained earnings	509,326	494,608
Cumulative translation account [note 13]	22,560	16,088
	1,903,274	1,692,233
Total liabilities and shareholders' equity	**$2,938,607**	**$2,270,702**

Commitments and contingencies [notes 9, 19, 24, 28]

See accompanying notes to consolidated financial statements.

Approved by the board of directors

Original signed by Nancy E. Hopkins and Allan E. Blakeney

Consolidated Statements of Earnings

For the year ended December 31	1998	1997 (Thousands)	1996
Revenue from			
Products and services	$ 718,949	$ 642,945	$ 590,861
Expenses			
Products and services sold	400,632	316,108	298,205
Depreciation, depletion and reclamation	126,669	122,676	94,974
Administration	39,516	27,213	23,255
Exploration	30,609	32,023	29,223
Research and development	2,671	1,893	3,334
Interest, net [note 14]	(1,609)	(7,962)	(3,396)
Writedown of mineral properties [note 5]	15,964	–	–
	614,452	491,951	445,595
Earnings from operations [note 26]	104,497	150,994	145,266
Other expenses [note 15]	11,579	3,958	2,422
Earnings before income taxes	92,918	147,036	142,844
Income tax expense [note 16]	47,274	65,057	5,311
Net earnings	**45,644**	**81,979**	**137,533**
Preferred securities charges [note 11]	1,980	–	–
Net earnings attributable to common shares [note 26]	**$ 43,664**	**$ 81,979**	**$ 137,533**
Net earnings per common share [note 26]	**$ 0.76**	**$ 1.51**	**$ 2.60**

Consolidated Statements of Retained Earnings

For the year ended December 31	1998	1997 (Thousands)	1996
Retained earnings at beginning of year	$ 494,608	$ 440,206	$ 329,131
Net earnings	45,644	81,979	137,533
Dividends on common shares	(28,946)	(27,577)	(26,458)
Preferred securities charges [note 11]	(1,980)	–	–
Retained earnings at end of year	**$ 509,326**	**$ 494,608**	**$ 440,206**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow

For the year ended December 31	1998	1997 (Thousands)	1996
Operating activities			
Net earnings	$ 45,644	$ 81,979	$ 137,533
Items not requiring (providing) cash:			
Depreciation, depletion and reclamation	126,669	122,676	94,974
Provision for deferred taxes [note 16]	38,148	58,847	–
Writedown of mineral properties [note 5]	15,964	–	–
Other non-cash items [note 15]	11,579	3,958	2,422
Deferred revenue recognized	(15,610)	(8,384)	(1,964)
Other operating items [note 17]	12,772	(96,970)	(55,062)
Cash provided by operations [note 26]	**235,166**	**162,106**	**177,903**
Investing activities			
Additions to property, plant and equipment	(158,623)	(126,143)	(168,141)
Change in long-term receivables, investments and other	10,524	(49,042)	(27,730)
Repayment of additional subordinated loan	–	–	31,591
Acquisition of net business assets [note 23]	(548,128)	(155,975)	–
Proceeds on sale of property, plant and equipment	2,427	6,315	2,227
Cash used in investing	**(693,800)**	**(324,845)**	**(162,053)**
Financing activities			
Increase in debt	407,906	150,412	88,415
Repayment of debt	(155,461)	(63,699)	(84,859)
Restricted cash	(15,769)	–	–
Issue of shares, net of issue costs	2,866	198,188	6,948
Issue of preferred securities, net of issue costs	176,736	–	–
Preferred securities charges	(1,980)	–	–
Dividends	(28,920)	(27,043)	(26,393)
Cash provided by (used in) financing	**385,378**	**257,858**	**(15,889)**
Increase (decrease) in cash during the year	(73,256)	95,119	(39)
Cash at beginning of year	109,722	14,603	14,642
Cash at end of year	**$ 36,466**	**$ 109,722**	**$ 14,603**

See accompanying notes to consolidated financial statements.

For the years ended December 31, 1998, 1997 and 1996

1. Cameco Corporation (Cameco)

Cameco is incorporated under the Canada Business Corporations Act. Cameco is primarily engaged in the exploration for and the development, mining, refining and conversion of uranium for sale as fuel for generating electricity in nuclear power reactors in Canada and other countries. Cameco is also involved in the exploration for and the development, mining and sale of gold.

2. Accounting Policies

A summary of significant accounting policies of Cameco follows the notes to the consolidated financial statements.

3. Accounts Receivable

	1998	1997
	(Thousands)	
Trade receivables	$ 121,974	$ 110,059
Current portion of long-term receivables [note 6]	2,273	1,525
Total	**$ 124,247**	**$ 111,584**

4. Inventories

	1998	1997
	(Thousands)	
Nuclear		
Concentrate	$ 379,095	$ 324,519
Broken ore	111,490	112,556
Conversion	31,127	31,358
	521,712	468,433
Gold		
Broken ore	4,533	8,026
Finished	1,011	3,728
	5,544	11,754
Total inventories	527,256	480,187
Less non-current inventories	(182,805)	(181,479)
Net	**$ 344,451**	**$ 298,708**

5. Property, Plant and Equipment

	Cost	Accumulated Depreciation and Depletion	1998 Net	1997 Net
			(Thousands)	
Nuclear				
Mining	$1,504,907	$ 796,437	$ 708,470	$ 553,214
Development	885,039	–	885,039	361,349
Conversion	232,588	84,959	147,629	152,309
Gold				
Mining	283,512	56,046	227,466	245,936
Other	43,214	22,807	20,407	29,920
Total	**$2,949,260**	**$ 960,249**	**$1,989,011**	**$1,342,728**

In 1998 Cameco recorded a writedown of $15,964,000 relating to certain of its in situ leach development properties located in the United States.

6. Long-Term Receivables, Investments and Other

	1998	1997
	(Thousands)	
Kumtor Gold Company		
Subordinated loan - principal [note 19]	$ 109,629	$ 102,889
Subordinated loan - interest	1,042	26,932
Restricted cash - debt reserve	15,769	–
Power Resources, Inc. reclamation trust	3,039	16,527
Deferred charges	27,432	–
Utility receivable	19,074	19,629
Investment in associated company (market $2,746)	2,746	11,295
Long-term investment (market $17,940)	19,141	–
Other	14,561	12,949
	212,433	190,221
Less current portion [note 3]	(2,273)	(1,525)
Net	**$ 210,160**	**$188,696**

The security agreement between Kumtor Gold Company (KGC) and the senior debt lenders to the project requires funds sufficient to meet those senior debt principal and interest payments scheduled to occur over the ensuing six months to be held in a debt reserve account until paid.

Deferred charges includes unrecognized losses on foreign currency exchange contracts designated as hedges of committed future cash flows and closed during the year. These deferred charges will be recognized against earnings in accordance with the designation dates which are from 1999 to 2003.

7. Short-Term Debt

Cameco has unsecured short-term facilities available totaling $55,000,000 of which $32,651,000 was drawn at December 31, 1998 at an average rate of 5.3%. This facility bears interest at a margin of 0.25% over bankers acceptances and matures in May 1999. The balance of the facility was used to support outstanding letters of credit.

8. Long-Term Debt

	1998	1997
	(Thousands)	
Kumtor Gold Company [note 19]		
Senior debt	$ 122,610	$ 126,891
Subordinated debt	10,203	9,577
Cameco share savings bonds [note 20]	6,722	6,613
Commercial paper	316,057	–
Bank debt	113,155	–
	568,747	143,081
Less current portion	(28,631)	(14,016)
Net	**$540,116**	**$129,065**

Cameco has a $400,000,000 long-term revolving credit facility that is available until February 18, 2003 and bears interest at margins over bankers acceptances and LIBOR of 0.17%. At December 31, 1998, $32,038,000 was drawn as bankers acceptances (6.0% average rate) and $53,000,000 (US) ($81,117,000 Cdn) as LIBOR based loans (5.6% average rate). Outstanding commercial paper bears interest at an average rate of 5.3%.

Cameco has a $350,000,000 long-term revolving credit facility that is available until January 24, 2000 and bears interest at margins over bankers acceptances and LIBOR of 0.1625%. There were no drawings under this facility at year end.

Amounts drawn under long-term revolving credit facilities plus commercial paper are classified as long-term debt up to the limit available under the facilities.

Cameco has a $15,000,000 overdraft facility and $216,800,000 ($102,000,000 (Cdn) and $75,000,000 (US)) in letter of credit facilities. Outstanding letters of credit at December 31, 1998 amounted to $125,600,000 (1997 - $117,487,000).

The repayment schedule below represents scheduled repayments of long-term debt over the next five years and thereafter, including Cameco's one-third share of Kumtor Gold Company principal repayments on debt and Cameco's share savings plan payments.

	(Thousands)
1999	$ 28,631
2000	63,195
2001	25,168
2002	25,168
2003	411,705
thereafter	14,880
Total	**$ 568,747**

Pursuant to the terms of the Kumtor financing arrangements [note 19], Cameco has guaranteed, subject to exclusions in respect of defined political force majeure events, the repayment of Kumtor's senior debt. Cameco's contingent obligations under these guarantees exceed the amount included in Cameco's long-term debt as at December 31, 1998 by $245,220,000 (1997 - $253,781,000).

9. Provision for Reclamation

	1998	**1997**
	(Thousands)	
Nuclear		
Mining	$ 54,000	$ 40,935
Conversion	47,395	45,776
Gold	4,600	1,265
Total	**$105,995**	**$ 87,976**

Cameco's estimates of decommissioning and reclamation costs are based on reclamation standards which meet or exceed regulatory requirements and are stated in current dollars. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, decommissioning and reclamation alternatives and amounts to be recovered from other parties.

Cameco estimates total future decommissioning and reclamation costs for its operating assets to be $217,000,000. These estimates are formally reviewed by Cameco technical personnel at least every two years or more frequently as required by regulatory agencies. These costs are accrued and charged to operations using the unit-of-production method so that the estimated future liability will be fully provided when decommissioning and reclamation activities are undertaken. In connection with future decommissioning and reclamation costs, Cameco has provided all required financial assurances satisfying current regulatory requirements.

10. Other Liabilities

	1998	1997
	(Thousands)	
Borrowed product	$ 720	$ 9,129
Deferred revenue	22,488	22,571
Provision for post-employment benefits	2,258	3,556
Other	7,992	10,444
	33,458	45,700
Less current portion	(14,406)	(26,553)
Net	**$ 19,052**	**$ 19,147**

Deferred revenue includes unrecognized gains on forward sale contracts for gold designated as hedges against future production and closed during the year. These deferred gains will be recognized as earnings in accordance with hedge designation dates which are in 1999 and 2000.

11. Preferred Securities

On October 14, 1998, Cameco issued $125,000,000 (US), 8.75% preferred securities in denominations of $25 (US) each due September 30, 2047 accruing interest from the date of issuance payable quarterly commencing December 31, 1998.

Cameco has the right to defer, subject to certain conditions, payments of interest on the preferred securities for a period of up to 20 consecutive quarterly periods, provided that no such extension period may extend beyond the stated maturity of the preferred securities. Except in certain limited circumstances, during any extension period, Cameco shall not pay or declare dividends on any of its capital stock (except by way of stock dividend). There may be multiple extension periods of varying lengths, each of up to 20 consecutive quarterly periods, throughout the term of the preferred securities. During any extension period, interest will accrue but will not compound. Cameco may satisfy its obligation to pay deferred interest on any applicable interest payment date by delivering to the trustee common shares of Cameco. The holders of the preferred securities shall be entitled to receive cash payments equal to the deferred interest from the proceeds of the sale of the common shares by the trustee.

The preferred securities are redeemable, at the option of Cameco, in whole or in part at any time on or after October 14, 2003 at a redemption price equal to 100% of the principal amount of the preferred securities to be redeemed plus any accrued and unpaid interest thereon to the date of redemption.

Cameco may satisfy its obligation to pay the applicable redemption price or the principal amount of the preferred securities plus accrued and unpaid interest thereon on the applicable payment date by delivering to the trustee common shares of Cameco. The holders of the preferred securities shall be entitled to receive cash payments equal to the applicable redemption price of the principal amount of the preferred securities plus accrued and unpaid interest thereon from the proceeds of the sale of the common shares by the trustee.

The principal amounts of the preferred securities, net of after tax issue costs of $4,330,000 (Cdn) have been classified as equity, and interest payments on an after tax basis will be classified as distributions of equity, as Cameco has the unrestricted ability to settle its obligations by delivering common shares to the trustee.

12. Share Capital

Authorized share capital:

Unlimited number of first preferred shares
Unlimited number of second preferred shares
Unlimited number of voting common shares, and
One class B share

(a) Common Shares

Number issued	1998	1997 (Number of Shares)	1996
Beginning of year	57,445,444	53,175,458	52,652,945
Issued:			
Public offering	–	4,000,000	–
Share savings plan [note 20]	75,418	112,436	358,663
Stock option plan [note 21]	124,700	147,550	153,850
Agreement for services	10,000	10,000	10,000
Issued share capital	**57,655,562**	**57,445,444**	**53,175,458**

Amount	1998	1997 (Thousands)	1996
Beginning of year	$ 693,192	$ 486,988	$ 478,590
Issued:			
Public offering	–	199,229	–
Share savings plan [note 20]	849	1,264	4,035
Stock option plan [note 21]	4,264	5,541	4,193
Agreement for services	170	170	170
Issued share capital	**698,475**	**693,192**	**486,988**
Less loans receivable [note 21]	(10,817)	(8,400)	(4,267)
End of year	**$ 687,658**	**$ 684,792**	**$ 482,721**

(i) On August 27, 1997, Cameco issued 4,000,000 common shares pursuant to a public offering for total consideration of $204,000,000. The proceeds of the issue after deducting expenses, net of tax recoveries, were $199,229,000.

(ii) A maximum of 707,733 shares can be issued under the exchange privileges available to owners of Cameco share savings bonds under the terms of the Cameco share savings plan, between January 1, 1999 and December 30, 2000 [note 20].

(iii) Options in respect of 1,445,325 shares are outstanding under the stock option plan and are exercisable up to 2007 [note 21]. Upon exercise of certain existing options, additional options in respect of 407,800 shares would be granted.

(iv) The aggregate number of common shares that may be issued, after December 5, 1995, pursuant to the Cameco share savings plan [note 20], stock option plan [note 21] and pursuant to any other compensation arrangement of Cameco, shall not exceed 5,243,403, of which 1,004,217 (1997 - 794,099) shares have been issued.

(b) Class B Share

One class B share issued during 1988 and assigned $1 of share capital, entitles the shareholder to vote separately as a class in respect of any proposal to locate the head office of Cameco to a place not in the province of Saskatchewan.

13. Cumulative Translation Account

The balance of $22,560,000 (1997 - $16,088,000) represents the cumulative unrealized net exchange gain on Cameco's net investments in foreign operations, and on the foreign debt and preferred securities designated as hedges of the net investment.

14. Interest

	1998	1997 (Thousands)	1996
Interest expense			
Short-term debt	$ 4,498	$ 8,588	$ 311
Long-term debt	28,042	13,129	13,334
Interest income	(20,342)	(15,876)	(4,415)
Capitalized interest	(13,807)	(13,803)	(12,626)
Net	**$ (1,609)**	**$ (7,962)**	**$ (3,396)**

15. Other Expenses

	1998	1997 (Thousands)	1996
Provision for decline in value of investment in associated company	$ 9,401	$ –	$ –
Other	2,178	3,958	2,422
Total	**$ 11,579**	**$ 3,958**	**$ 2,422**

16. Income Taxes

The provision for income taxes differs from the amount computed by applying the combined expected federal and provincial income tax rate to earnings before income taxes. The reasons for these differences are as follows:

	1998	1997 (Thousands)	1996
Earnings before income taxes	$ 92,918	$ 147,036	$ 142,844
Combined federal and provincial tax rate	45.9%	45.8%	45.8%
Computed income tax expense	42,649	67,342	65,423
Increase (decrease) in taxes resulting from:			
Provincial royalties and other taxes	18,645	18,650	28,094
Federal resource allowance	(12,240)	(19,837)	(23,201)
Difference between Canadian rate and rates applicable to subsidiaries in other countries	(9,356)	(6,493)	–
Large corporations and other taxes	4,863	5,601	5,311
Other	2,713	(206)	(626)
Income tax expense	47,274	65,057	75,001
Less realization of additional tax values	–	–	(69,690)
Net	**$ 47,274**	**$ 65,057**	**$ 5,311**

Current income taxes			
Canada	$ 8,558	$ 5,601	$ 5,311
United States	72	466	–
Other	496	143	–
	$ 9,126	**$ 6,210**	**$ 5,311**
Deferred income taxes			
Canada	$ 45,058	$ 67,216	$ –
United States	(4,911)	(2,311)	–
Other	(1,999)	(6,058)	–
	$ 38,148	**$ 58,847**	**$ –**
Net	**$ 47,274**	**$ 65,057**	**$ 5,311**

17. Other Operating Items

	1998	1997 (Thousands)	1996
Changes in non-cash working capital:			
Accounts receivable	$ 8,049	$ (19,669)	$ (28,844)
Interest receivables	25,891	(14,643)	(6,374)
Inventories	51,421	(114,498)	(1,078)
Supplies and prepaid expenses	(8,029)	(8,757)	(4,814)
Accounts payable and accrued liabilities	(5,585)	24,362	(761)
Other liabilities	(29,095)	19,136	(12,518)
Hedge position settlements	(16,897)	22,137	2,201
Reclamation payments	(12,028)	(3,550)	(2,809)
Other	(955)	(1,488)	(65)
Total	**$ 12,772**	**$ (96,970)**	**$ (55,062)**

18. Joint Ventures

Certain of Cameco's development mining and milling activities are conducted through joint ventures as follows:

	Operator	1998	1997 (% Participation)	1996
Uranium				
Producing:				
Key Lake	Cameco	(a)	66.67	66.67
Rabbit Lake	Cameco	(a)	66.67	66.67
Crow Butte	Crow Butte Resources, Inc.	90.00	32.31	32.31
Non-producing:				
McArthur River	Cameco	83.76	55.84	55.84
Cigar Lake[(b)]	Cigar Lake Mining Corporation	48.75	48.75	48.75
Midwest	Cogema Resources Inc.	20.00	–	–
Gold				
Producing:				
Contact Lake	Cameco	(a)	66.67	66.67
Kumtor Gold Company	Cameco	33.33	33.33	33.33

(a) During 1998, Cameco purchased [note 23] the interests of the other joint venture participant in the Key Lake, Rabbit Lake and Contact Lake joint ventures. As a result, these projects are no longer operated as joint ventures.

(b) Cameco holds an additional 2% voting interest in the Cigar Lake joint venture.

Production expenses relating to mining and milling activities are included in the cost of inventory. Certain of the joint ventures allocate inventory to each of the joint venture participants and the joint venture participants derive revenue directly from the sale of such inventory. Cameco's share of assets and liabilities of these joint ventures is as follows:

	1998	1997
	(Thousands)	
Current assets	$ 6,815	$ 13,976
Property, plant and equipment	423,414	793,702
	$ 430,229	$ 807,678
Current liabilities	$ 16,660	$ 25,022
Provision for reclamation	5,792	1,677
Net investment		
Uranium	407,777	779,589
Gold	–	1,390
	$ 430,229	$ 807,678

For the Kumtor gold joint venture, which obtains revenue from the sale of products, Cameco's share of the assets and liabilities, revenue and expenses is as follows:

	1998	1997
	(Thousands)	
Current assets	$ 49,375	$ 43,763
Property, plant and equipment	191,328	200,819
	$ 240,703	$ 244,582
Current liabilities	$ 6,614	$ 11,146
Long-term liabilities	200,297	202,827
Equity	33,792	30,609
	$ 240,703	$ 244,582

	1998	1997	1996
		(Thousands)	
Revenues	$ 109,349	$ 69,812	$ –
Expenses	(109,020)	(61,345)	–
Net earnings	**$ 329**	**$ 8,467**	**$ –**
Cash provided by (used in)			
Operating activities	$ 18,604	$ 21,224	$ –
Investing activities	(3,209)	(17,615)	(91,614)
Financing activities	(12,584)	13,800	91,833
Increase in cash during the year	**$ 2,811**	**$ 17,409**	**$ 219**

19. Kumtor Gold Company (KGC) Joint Venture

On May 26, 1994 Cameco, the Republic of Kyrgyzstan and Kyrgyzaltyn, an instrumentality of the Republic, signed an amended joint venture master agreement that provided for the exploration, development, operation and arrangement of financing, of the Kumtor gold project by Cameco. KGC was formed in the Republic of Kyrgyzstan as a joint stock company to hold the assets of the Kumtor gold project pursuant to the master agreement. Kyrgyzaltyn holds a two-thirds interest in KGC and Cameco holds a one-third interest.

Cameco has contributed $45,000,000 (US) in equity, loaned $107,437,276 (US) in the form of subordinated debt under the financing agreements, and arranged $265,000,000 (US) in senior debt and $20,000,000 (US) in third party subordinated debt.

Cameco guarantees repayment of KGC senior debt in the event of certain project related defaults. This guarantee would not apply to certain political force majeure events.

Cameco has proportionately consolidated its one-third interest in KGC.

KGC's long-term debt at December 31, is as follows:

	1998	1997
	(Thousands)	
Senior debt:		
• Commercial banks $139,500,000 (1997 - $155,000,000) (US) repayable in nine equal semi-annual instalments, with interest based on LIBOR plus 0.7%. Political risk insurance has been purchased separately by KGC.	$ 213,505	$ 222,657
• Export Development Corporation (EDC) $45,833,000 (1997 - $50,000,000) (US)	70,147	71,825
• International Finance Corporation (IFC) $27,500,000 (1997 - $30,000,000) (US)	42,089	43,095
• European Bank for Reconstruction and Development (EBRD) $27,500,000 (1997 - $30,000,000) (US)	42,089	43,095
The EDC, IFC and EBRD interest rate is based on LIBOR plus 3% which includes a premium for political risk insurance. These loans are repayable in 11 equal semi-annual instalments.		
The senior debt is secured by the assets and shares of KGC.		
Total senior debt	$ 367,830	$ 380,672
Subordinated debt:		
• EBRD $10,000,000 (1997 - $10,000,000) (US)	15,305	14,365
• IFC $10,000,000 (1997 - $10,000,000) (US)	15,305	14,365
The subordinated debt is repayable in four equal semi-annual instalments commencing on December 2, 2005, extendable at the option of EBRD or IFC to commence no later than December 2, 2013. The interest rate applicable to the EBRD and IFC subordinated debt is based on the cash generated by the project subject to a minimum interest rate. The annualized rate for 1998 was approximately 12.4% (1997 - 10%).		
• Cameco's shareholder's loan note with interest based on LIBOR plus 6%, repayable in 12 equal semi-annual instalments commencing on December 2, 1999 $107,437,276 (US).	164,433	154,334
Total KGC debt	**$ 562,873**	**$ 563,736**

Cameco's one-third proportionate share of KGC senior debt is $122,610,000 (1997 - $126,891,000) and of KGC's third party subordinated debt is $10,203,000 (1997 - $9,577,000) [note 8].

20. Cameco Share Savings Plan

On December 31, 1990, Cameco issued 10-year, 11% redeemable and exchangeable bonds registered to subscribing employees. At the option of employees, bonds may be exchanged or redeemed at the end of any calendar quarter. Bonds were exchanged for shares of Cameco as disclosed in note 12.

Under terms of the plan, Cameco agreed to provide financing to employees to purchase the bonds, and agreed to partially match the employees' repayment of the loans. Loan balances are required to be fully repaid at the time of exchange. Cameco's estimated maximum commitment under this matched repayment program is $882,000.

The outstanding bonds and loans receivable are as follows:

	1998	1997
	(Thousands)	
Cameco share savings bonds	$ 8,373	$ 9,249
Less loans receivable	(1,651)	(2,636)
Net	**$ 6,722**	**$ 6,613**

21. Stock Option Plan

Cameco has established a stock option plan under which options to purchase common shares may be granted to directors, officers and other employees of Cameco. Options granted under the stock option plan have an exercise price of not less than the closing price quoted on The Toronto Stock Exchange for the common shares of Cameco on the trading day prior to the date on which the option is granted. The options expire 10 years from the date of the grant of the option.

Under the stock option plan, participants are eligible to receive loans from Cameco to assist in the purchase of common shares pursuant to the exercise of certain options. The maximum term of the loans is 10 years from the date of the grant of the related option . These loans bear interest at a rate equivalent to the regular dividends paid on the common shares to which these loans were provided. Common shares purchased by way of a company loan are held in escrow in the account of the optionee and are pledged as security until the loan has been repaid in full.

Outstanding loans are shown as a reduction from share capital.

	1998	1997	1996
		(Dollars only in Thousands)	
Common shares held as security for loans	305,365	248,225	161,425
Market value of security at December 31 (February 1, 1999 - $11,115)	$ 8,382	$11,518	$ 8,862
Loans outstanding at December 31 [note 12]	$ 10,817	$ 8,400	$ 4,267

Stock option transactions for the respective years were as follows:

	1998	1997	1996
		(Number of Shares)	
Beginning of year	1,173,775	878,075	698,250
Options granted	461,400	471,500	380,850
Options exercised [note 12]	(124,700)	(147,550)	(153,850)
Options cancelled	(65,150)	(28,250)	(47,175)
End of year	**1,445,325**	**1,173,775**	**878,075**
Exercisable	**749,025**	**558,150**	**411,450**

Weighted average exercise prices were as follows:

	1998	1997	1996
Beginning of year	$ 47.28	$ 43.91	$ 25.61
Options granted	41.48	50.89	73.48
Options exercised	34.20	37.56	27.25
Options cancelled	49.75	53.21	66.16
End of year	**$ 46.45**	**$ 47.28**	**$ 43.91**
Exercisable	**$ 40.52**	**$ 41.24**	**$ 40.13**

Total options outstanding and exercisable at December 31, 1998 were as follows:

1998		**Options Outstanding**		**Options Exercisable**	
Option Price Per Share	**Number**	**Weighted Average Remaining Life**	**Weighted Average Exercisable Price**	**Number**	**Weighted Average Exercisable Price**
$15.00-35.00	393,275	6 years	$26.05	381,625	$25.93
35.01-55.00	748,650	9 years	46.09	239,800	45.47
55.01-75.50	303,400	8 years	73.79	127,600	74.88

22. Pension Plans

Cameco's pension plans, which cover substantially all full-time employees, are defined contribution plans. Cameco's obligations are limited to matching the contributions made by employees for current services and are charged to operations.

23. Property and Business Acquisitions

(a) On August 11, 1998, Cameco purchased all of the outstanding shares of Uranerz Exploration and Mining Limited and Uranerz U.S.A., Inc. (collectively Uranerz). The principal assets acquired in connection with the acquisition consist of working interests of 27.92% in the McArthur River project, 33.33% in the Key Lake mine and mill, 33.33% in the Rabbit Lake mine and mill and 57.69% in the Crow Butte mine and mill. Included in the acquisition is $53,979,000 of debt owed to previous Uranerz shareholders, a joint venture interest in a potential in situ leach uranium project in Kazakhstan, a 20% working interest in the proposed Midwest uranium project in Saskatchewan, a 33.33% working interest in the Contact Lake mine and mill, and a number of uranium and gold exploration properties. As a result of the Uranerz acquisition, Cameco increased its ownership interest in the McArthur River project to 83.76%, in each of the Key Lake, Rabbit Lake and Contact Lake mine and mill to 100% and in the Crow Butte mine and mill to 90%. The purchase price of $490,220,000 plus accrued interest of $5,738,000 was paid in cash. Integral to the acquisition was the purchase of a 6.45% interest in Energy Resources Australia Ltd. (ERA) for $58,002,000. For accounting purposes, the excess of the purchase price of the ERA shares over their market value at time of closing of $19,141,000 has been included in the acquisition cost of Uranerz.

The acquisition has been accounted for using the purchase method of accounting and the results of operations are included in Cameco's consolidated financial statements from the effective date of purchase.

	(Thousands)
Net assets acquired were:	
Working capital	$ 2,857
Long-term receivables, investments, and other	19,141
Property, plant and equipment	576,655
Long-term liabilities	(44,693)
Net assets acquired	553,960
Less cash acquired	(5,832)
Net	**$ 548,128**

The following unaudited pro-forma financial information presents the combined results of Cameco and Uranerz as if the acquisition had occurred at the beginning of the years presented, after giving effect to certain adjustments including additional depreciation, depletion and reclamation expense, additional interest on acquisition related financing less interest capitalized on non-producing properties under development, elimination of interest on the Uranerz debt purchased by Cameco and related income tax effects. The unaudited pro forma financial information is for informational purposes only and is not necessarily indicative of the future results of operations of the combined entity or of the results of operations that would have actually occurred had the acquisition occurred at the beginning of the years presented.

	1998	1997
	(Thousands)	
Revenue	$ 762,512	$ 818,713
Earnings from operations	107,235	190,179
Net earnings	44,522	108,658
Net earnings per share	$ 0.78	$ 2.00

(b) On January 13, 1997, Cameco purchased all of the outstanding shares of Power Resources, Inc. (PRI) and Central Electricity Generating Board Exploration (Canada) Ltd. (CEGBE). The acquisition price was $145,645,000 ($107,900,000 (US)) and was financed by cash of $9,645,000 and debt of $136,000,000. PRI owns 74% and is the operator of the Highland uranium project in Wyoming. CEGBE was primarily involved in uranium exploration activities in Canada. The acquisition has been accounted for using the purchase method and the results of operations are included in Cameco's consolidated financial statements from the effective date of purchase.

	(Thousands)
Net assets acquired were:	
Working capital	$ 20,341
Property, plant and equipment	140,495
Long-term liabilities	(15,191)
Net assets acquired	145,645
Less cash acquired	(1,895)
Net	**$ 143,750**

(c) On June 16, 1997, Cameco purchased the remaining interest in the Highland uranium project. The acquisition price was $18,962,000 ($13,700,000 (US)) and was financed by transfer of a uranium development project in Canada for $6,230,000 and entering into an agreement to deliver 800,000 lbs of uranium concentrate valued at $12,732,000. The acquisition has been accounted for using the purchase method and the results of operations are included in Cameco's consolidated financial statement from the effective date of purchase.

	(Thousands)
Net assets acquired were:	
Working capital	$ (145)
Property, plant and equipment	22,753
Long-term liabilities	(3,646)
Net assets acquired	18,962
Less cash acquired	(370)
Net	**$ 18,592**

24. Commitments and Contingencies

(a) Under the terms of the agreement to transfer assets from Canada Eldor Inc. to Cameco, Canada Eldor Inc. and Cameco along with the government of Canada, agreed on a formula for sharing any future joint costs, excluding normal operating costs, related to certain specified existing wastes, accumulated by Canada Eldor Inc., and transferred to Cameco on October 5, 1988, the date of transfer of assets. Pursuant to the cost sharing formula, Cameco assumed liability for the first $2,000,000 of joint costs and 23/98ths of the next $98,000,000. The government of Canada and Canada Eldor Inc. assumed the liability for the remaining 75/98ths and for all costs in excess of $100,000,000.

Cameco's maximum liability for joint costs related to certain specified existing wastes, calculated pursuant to the formula, is $25,000,000. A total of $4,900,000 (1997 - $3,783,000) has been spent to date.

(b) Cameco has a commitment, with certain qualifications, to buy a minimum of 50 gigawatt hours of hydro-electric power per year from SaskPower Corporation. Cameco presently consumes in excess of its minimum commitment.

(c) Cameco is a co-defendant, with Canada Eldor Inc., in a lawsuit brought in 1993 on behalf of certain members of the Eldorado Pension Plan (plan). The lawsuit is based on the fact that approximately $15,500,000 of plan expenses and employer contributions was funded from the plan surplus rather than from the co-defendants.

Affidavits have been exchanged and some cross examinations have taken place, but the cross examinations have not yet been completed. As such, many of the factual and legal issues have not yet been determined.

The co-defendants have a number of defences which continue to be vigorously pursued. Management remains of the opinion, after review of the facts with counsel, that the outcome of this case will not have a material impact on Cameco's financial position, results of operations or liquidity.

(d) Two actions against Cameco, Cameco Gold Inc., Kumtor Operating Company and certain other parties have been commenced in Canadian courts by certain dependents of 10 persons seeking damages, in the amount of $20,700,000 including punitive damages, and in an unspecified amount respectively, in connection with the death of the said 10 persons in a helicopter accident in Kyrgyzstan on October 4, 1995. These actions are being defended by the insurers of Cameco. Management is of the opinion, after review of the facts with counsel, that the outcome of these actions will not have a material financial impact on Cameco's financial position, results of operations or liquidity.

25. Financial Instruments

The majority of revenues are derived from the sale of uranium products. Cameco's financial results are closely related to the long and short-term market price of uranium and conversion services. Prices are subject to fluctuation and are affected by demand for nuclear power, worldwide production levels and political and economic conditions in uranium producing and consuming countries. Revenue from gold operations is largely dependent on the market price of gold which is subject to significant fluctuation affected by industry and economic factors and worldwide production levels. Financial results are also impacted by changes in foreign currency exchange rates, interest rates and other operating risks.

To hedge risks associated with fluctuations in the market price for uranium, Cameco seeks, when market conditions permit, to maintain a portfolio of uranium contracts with a variety of delivery dates and pricing mechanisms which provides a degree of protection from price volatility. To hedge risks associated with gold prices and foreign currency exchange rates, Cameco employs a number of financial instruments. Cameco uses a series of put and call options to establish a minimum and maximum price range for gold sales and exchange rates for cash flows denominated in a foreign currency. Cameco also enters into forward sales contracts which establish a price for future deliveries of gold and US dollars.

Instruments such as swaps, puts and calls and forward rate agreements are used by Cameco to manage funding costs and reduce the impact of interest rate volatility.

Financial assets which are subject to credit risks include cash and securities, accounts receivable and commodity and currency instruments. Cameco mitigates credit risk on these financial assets by holding positions with a variety of large creditworthy institutions. Sales of uranium are to creditworthy utility customers with short payment terms.

Except as disclosed below, the fair market value of Cameco's financial assets and financial liabilities approximate net book value as a result of the short-term nature of the instrument or the variable interest rate associated with the instrument.

Currency
At December 31, 1998, Cameco has sold forward $478,000,000 (US) at an average exchange rate of $1.5143, designated to various dates through 2003. At December 31, 1998, Cameco's net mark-to-market exposure under these foreign currency instruments was $10,400,000 (Cdn).

Interest
At December 31, 1998, Cameco has in place $100,000,000 of interest rate swaps with a maturity in January 2003, and a weighted average fixed rate of 5.46%. The company has also entered into a $50,000,000 short-term interest rate swap (maturing January 1999) at a fixed rate of 5.26% and a $30,000,000 (US), ($45,915,000 (Cdn)) forward rate agreement (maturing February 1999) at a fixed rate of 4.77%.

The mark-to-market exposure on these positions was $1,575,000.

Commodity
At December 31, 1998, Cameco's share of Kumtor gold hedging positions consists of:

	1999	2000
Forward contracts		
Amount hedged (thousands of ounces)	205	28
Average price (US $/oz)	$ 298	$ 297
Put options purchased		
Amount hedged (thousands of ounces)	16	–
Average price (US $/oz)	$ 335	$ –
Call options sold		
Amount hedged (thousands of ounces)	15	92
Average price (US $/oz)	$ 374	$ 353

At December 31, 1998, the net mark-to-market gain, excluding amounts reflected as deferred revenue [note 10], on the above instruments was $2,584,000 (US).

26. Per Share Amounts
Per share amounts have been calculated based on the weighted average number of common shares outstanding during the year net of shares held as security for employee loans to purchase shares. The weighted average number of paid shares outstanding in 1998 was 57,277,116 (1997 - 54,413,333; 1996 - 52,833,746).

	1998	1997 (Per Share)	1996
Cash provided by operations	$ 4.11	$ 2.98	$ 3.37
Earnings from operations	$ 1.82	$ 2.77	$ 2.75
Net earnings	$ 0.76	$ 1.51	$ 2.60

27. Segmented Information

Cameco has two reportable segments: nuclear and gold. The nuclear segment involves the mining, milling, refining and conversion of uranium concentrate. The gold segment involves the mining and milling of gold.

Cameco's reportable segments are strategic business units with different products, different processes and different marketing strategies.

Accounting policies used in each segment are the same and consistent with policies outlined in the summary of significant accounting policies.

(a) Business Segments

1998	Nuclear	Gold (Millions)	Total
Revenue	$ 575.7	$ 143.2	$ 718.9
Products and services sold	336.9	63.7	400.6
Depreciation, depletion and reclamation	87.5	39.2	126.7
Exploration	14.8	15.8	30.6
Research and development	2.7	–	2.7
Other	16.0	9.4	25.4
Non-segmented expenses			40.0
Earnings before income taxes	**117.8**	**15.1**	**92.9**
Income taxes			47.3
Net earnings	**$ 117.8**	**$ 15.1**	**$ 45.6**
Assets	**$ 2,504.3**	**$ 434.3**	**$ 2,938.6**
Capital expenditures for the year	**$ 699.5**	**$ 2.8**	**$ 702.3**

1997	Nuclear	Gold (Millions)	Total
Revenue	$ 539.7	$ 103.2	$ 642.9
Products and services sold	269.8	46.3	316.1
Depreciation, depletion and reclamation	97.8	24.9	122.7
Exploration	14.5	17.5	32.0
Research and development	1.9	–	1.9
Non-segmented expenses			23.2
Earnings before income taxes	**155.7**	**14.5**	**147.0**
Income taxes			65.0
Net earnings	**$ 155.7**	**$ 14.5**	**$ 82.0**
Assets	**$ 1,802.6**	**$ 468.1**	**$ 2,270.7**
Capital expenditures for the year	**$ 276.2**	**$ 31.5**	**$ 307.7**

1996	Nuclear	Gold (Millions)	Total
Revenue	$ 561.0	$ 29.9	$ 590.9
Products and services sold	279.7	18.5	298.2
Depreciation, depletion and reclamation	87.6	7.4	95.0
Exploration	10.6	18.6	29.2
Research and development	3.3	–	3.3
Non-segmented expenses			22.4
Earnings before income taxes	**179.8**	**(14.6)**	**142.8**
Income taxes			5.3
Net earnings	**$ 179.8**	**$ (14.6)**	**$ 137.5**
Assets	**$ 1,412.7**	**$ 365.9**	**$1,778.6**
Capital expenditures for the year	**$ 68.9**	**$ 86.5**	**$ 155.4**

(b) Geographic Segments	1998	1997 (Millions)	1996
Revenue from products and services			
Canada - domestic	$ 31.6	$ 39.1	$ 43.9
- export	507.9	491.0	539.1
United States	65.2	32.1	1.8
Central Asia	114.2	80.7	6.1
	$ 718.9	**$ 642.9**	**$ 590.9**
Assets			
Canada	$ 2,278.3	$ 1,539.6	$ 1,406.9
United States	267.9	275.4	26.4
Central Asia	392.4	455.7	345.3
	$ 2,938.6	**$2,270.7**	**$1,778.6**

(c) Major Customers

Cameco relies on a small number of customers to purchase a significant portion of its uranium concentrates and uranium conversion services. During 1998, sales to any one customer did not exceed 10% of revenue. As customers are relatively few in number, accounts receivable from any individual customer may periodically exceed 10% of accounts receivable depending on delivery schedules. During 1997, sales to any one customer did not exceed 10% of revenue. During 1996, sales to one major electric generating utility accounted for 10.6% of total nuclear revenue.

28. Uncertainty Due to Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issues affecting the entity will be fully resolved, including those related to the efforts of customers, suppliers or other third parties.

29. Generally Accepted Accounting Principles in Canada and the United States

The consolidated financial statements of Cameco are expressed in Canadian dollars in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The following adjustments and disclosures would be required in order to present these consolidated financial statements in accordance with accounting principles generally accepted in the United States (US GAAP).

(a) Reconciliation of earnings in accordance with Canadian GAAP to earnings determined in accordance with US GAAP.

	1998	1997 (Thousands)	1996
Net earnings under Canadian GAAP	$ 45,644	$ 81,979	$ 137,533
Add (deduct) adjustment for:			
Foreign exchange losses (i)	(12,639)	–	–
Interest on preferred securities (ii)	(3,639)	–	–
Capitalized interest (ii)	3,639	–	–
Income tax effect of adjustments	5,764	–	–
Accounting for income taxes (iii)	–	(7,800)	(68,100)
Net earnings under US GAAP	38,769	74,179	69,433
Foreign currency translation adjustments	19,111	16,088	–
Comprehensive income under US GAAP	$ 57,880	$ 90,267	$ 69.433
Net earnings per share under US GAAP	$ 0.68	$ 1.36	$ 1.31
Comprehensive income per share under US GAAP	$ 1.01	$ 1.66	$ 1.31

Comparison of balance sheet items determined in accordance with Canadian GAAP to balance sheet items determined in accordance with US GAAP.

	1998		1997	
	Canadian GAAP	US GAAP	Canadian GAAP (Thousands)	US GAAP
Current assets	$ 556,631	$ 556,631	$ 557,799	$ 557,799
Property, plant and equipment	1,989,011	2,137,944	1,342,728	1,357,885
Long-term receivables, investments and other	210,160	210,160	188,696	188,696
Inventories	182,805	182,805	181,479	181,479
Total assets	**$ 2,938,607**	**$3,087,540**	**$2,270,702**	**$ 2,285,859**
Current liabilities	199,230	199,230	285,231	285,231
Long-term debt	540,116	727,101	129,065	129,065
Provision for reclamation	105,995	105,995	87,976	87,976
Other liabilities	19,052	19,052	19,147	19,147
Deferred income taxes	170,940	312,130	57,050	72,207
	1,035,333	1,363,508	578,469	593,626
Shareholders' equity				
Preferred securities	186,985	–	–	–
Share capital	687,658	687,658	684,792	684,792
Contributed surplus	496,745	496,745	496,745	496,745
Retained earnings	509,326	504,430	494,608	494,608
Accumulated other comprehensive income - cumulative translation account	22,560	35,199	16,088	16,088
	1,903,274	1,724,032	1,692,233	1,692,233
Total liabilities and shareholders' equity	**$ 2,938,607**	**$3,087,540**	**$2,270,702**	**$ 2,285,859**

The cumulative effect of these adjustments on consolidated shareholders' equity is as follows:

		1998	1997 (Thousands)	1996
Shareholders' equity under Canadian GAAP		$ 1,903,274	$ 1,692,233	$ 1,419,672
Capitalized interest (ii)	78	3,639	–	–
Preferred securities (ii)	(19	(186,985)	–	–
Income tax effect of adjustments		4,104	–	–
Accounting for income taxes (iii)	110	–	–	7,800
Shareholders' equity under US GAAP		**$ 1,724,032**	**$ 1,692,233**	**$ 1,427,472**

(i) Foreign Exchange Losses

Under US GAAP a foreign currency forward transaction can only qualify as a hedge of a firm foreign currency commitment. Under Canadian GAAP, a foreign currency forward transaction can qualify as a hedge of an anticipated foreign currency commitment. Foreign exchange losses on foreign currency transactions where the transaction was anticipated but not committed have been deducted against earnings for US GAAP purposes.

(ii) Preferred Securities

Preferred securities are classified as equity under Canadian GAAP and interest payments, on an after tax basis, are classified as distributions of equity. Under US GAAP, the preferred securities are classified as debt and interest payments are included in interest expense. Cameco's policy under both Canadian GAAP and US GAAP is to capitalize interest on expenditures related to construction of development projects actively being prepared for their intended use. Under US GAAP the interest on the preferred securities, classified as debt under US GAAP, would be capitalized to development properties.

(iii) Income Taxes

Cameco follows the deferral method of accounting for income taxes in accordance with Canadian GAAP which relates the provision for income taxes to the accounting earnings for the year. US GAAP requires the use of the asset and liability method of accounting for income taxes. Under US GAAP, a deferred tax asset or liability is recognized for the difference between the assigned values and the tax bases of assets acquired and liabilities assumed in a purchase business combination. Under Canadian GAAP, the carrying value of the related asset or liability is adjusted for such future tax effects.

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	1998	1997 (Thousands)	1996
Deferred tax assets (liabilities):			
Property, plant and equipment	$ (337,760)	$ (80,580)	$ 75,144
Provision for reclamation	40,277	35,034	25,455
Foreign exploration and development	28,843	32,118	9,504
Other	16,444	7,893	4,240
Inventories	(52,232)	(63,355)	(38,443)
Valuation allowance	(7,702)	(3,317)	–
Net deferred tax values under US GAAP	**$ (312,130)**	**$ (72,207)**	**$ 75,900**

(b) Stock-Based Compensation

Statement of Financial Accounting Standards no. 123, Accounting for Stock-Based Compensation establishes financial accounting and reporting standards for stock-based employee compensation plans. This statement defines a fair value based method of accounting for employee stock options. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, which is similar to the method applied under Canadian GAAP and followed by Cameco. Companies that continue to follow the intrinsic value based method must disclose pro-forma earnings and earnings per share information under the fair value method. Cameco has used the Black-Scholes option pricing model to estimate the fair value of options granted assuming an option life of 10 years, a risk free interest rate of 6%, a dividend yield of 1% and a volatility factor of 39%.

If the fair value based method of accounting had been applied, pro-forma net earnings and earnings per share would have been as follows:

	1998	1997 (Thousands)	1996
Net earnings for the year in accordance with US GAAP as calculated above	$ 38,769	$ 74,179	$ 69,433
Effect of recording compensation expense under stock option plans	(4,854)	(4,654)	(3,887)
Pro-forma net earnings after application of SFAS 123	$ 33,915	$ 69,525	$ 65,546
Pro-forma net earnings per common share after application of SFAS 123	$ 0.59	$ 1.28	$ 1.24

Summary of Significant Accounting Policies

The consolidated financial statements are prepared by management in accordance with accounting principles generally accepted in Canada and, except as described in note 29, conform in all material respects with accounting principles generally accepted in the United States. Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented, and in the disclosure of commitments and contingencies. Changes in estimates and assumptions will occur based on the passage of time and the occurrence of certain future events. This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements and is presented to assist the reader in interpreting the statements contained herein.

Consolidation Principles

The consolidated financial statements include the accounts of Cameco and its subsidiaries. Interests in joint ventures are accounted for by the proportionate consolidation method. Under this method, Cameco includes in its accounts its proportionate share of assets, liabilities, revenues and expenses.

Inventories

Inventories of broken ore, uranium concentrates and refined and converted products are valued at the lower of average cost and net realizable value. Cost for customer-owned conversion inventories is the cost of the refining and conversion processes.

Supplies

Consumable supplies and spares are valued at the lower of weighted average cost or replacement value.

Investments

Investments in associated companies over which Cameco has the ability to exercise significant influence are accounted for by the equity method. Under this method, Cameco includes in earnings its share of earnings or losses of the associated company. Other long-term investments are carried at cost or at cost less amounts written off to reflect a decline in value that is other than temporary.

Property, Plant and Equipment

Assets are carried at cost. Costs of additions and improvements are capitalized. When assets are retired or sold, the resulting gains or losses are reflected in current earnings. Maintenance and repair expenditures are charged to cost of production. The carrying values of property, plant and equipment are periodically assessed by management and if management determines that the carrying values cannot be recovered, the unrecoverable amounts are written off against current earnings.

Non-Producing Properties

The decision to develop a mine property within a project area is based on an assessment of the commercial viability of the property, the availability of financing and the existence of markets for the product. Once the decision to proceed to development is made, development and other expenditures relating to the project area are deferred and carried at cost with the intention that these will be depleted by charges against earnings from future mining operations. No depreciation or depletion is charged against the property until commercial production commences. After a mine property has been brought into commercial production, costs of any additional work on that property are expensed as incurred, except for large development programs, which will be deferred and depleted over the remaining reserves.

The carrying values of non-producing properties are periodically assessed by management and if management determines that the carrying values cannot be recovered, the unrecoverable amounts are written off against current earnings.

Capitalization of Interest

Interest is capitalized on expenditures related to construction or development projects actively being prepared for their intended use. Capitalization is discontinued when the asset enters commercial operation or development ceases.

Depreciation and Depletion

Conversion services assets, mine buildings, equipment and mineral properties are depreciated or depleted according to the unit-of-production method. This method allocates the costs of these assets to each accounting period. For conversion services, the amount of depreciation is measured by the portion of the facilities' total estimated lifetime production that is produced in that period. For mining, the amount of depreciation or depletion is measured by the portion of the mines' economically recoverable proven and probable ore reserves which are recovered during the period.

Other assets are depreciated according to the straight-line method based on estimated useful lives which range from three to 10 years.

Summary of Significant Accounting Policies

Research and Development and Exploration Costs

Expenditures for applied research and technology related to the products and processes of Cameco and expenditures for geological exploration programs are charged against earnings as incurred.

Environmental Protection and Reclamation Costs

Expenditures relating to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and depreciated depending on their relationship to future earnings. The estimated costs for decommissioning and reclaiming producing resource properties are accrued and charged to operations according to the unit-of-production method. Actual costs of decommissioning and reclamation are deducted against this accrual. Cameco's estimates of reclamation costs could change as a result of changes in regulatory requirements and cost estimates.

Post-Employment Benefits

Cameco accrues for all post-employment benefits over the estimated service life of the employees.

Sales of Products and Services

In accordance with normal industry practices, Cameco contracts for future delivery of mine concentrates and conversion services. Sales revenue is recorded in the period that title passes or, with customer-owned material, when delivery is effected.

Amortization of Financing Costs

Debt discounts and issue expenses associated with long-term financing are deferred and amortized over the term of the issues to which they relate.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year-end rates of exchange. Revenue and expense transactions denominated in foreign currencies are translated into Canadian dollars at rates in effect at the time of the transactions. The applicable exchange gains and losses arising on these transactions are reflected in earnings.

Foreign currency gains or losses arising on translation of long-term monetary items with a fixed or ascertainable life beyond the end of the following fiscal year are deferred and amortized to earnings over the remaining life of the item.

The United States dollar is considered the functional currency of Cameco's uranium operations in the United States and gold operations in Kyrgyzstan. The financial statements of these operations are translated into Canadian dollars using the current rate method whereby all assets and liabilities are translated at the year-end rate of exchange and all revenue and expense items are translated at the average rate of exchange prevailing during the year. Exchange gains and losses arising from this translation, representing the net unrealized foreign currency translation gain (loss) on Cameco's net investment in these foreign operations, are recorded in the cumulative translation account component of shareholders' equity. Exchange gains or losses arising from the translation of foreign debt designated as a hedge of a net investment in foreign operations are also recorded in the cumulative translation account component of shareholders' equity. These adjustments are not included in earnings until realized through a reduction in Cameco's net investment in such operations.

Derivative Financial Instruments and Hedging Transactions

Cameco utilizes derivative financial and commodity instruments to reduce exposure to fluctuations in foreign currency exchange rates, interest rates, and commodity prices. Gains and losses related to derivatives that are hedges are deferred and recognized in the same period as the corresponding hedged positions. If derivative financial instruments are closed before planned delivery, gains or losses are recorded as deferred revenue or deferred charges and recognized on the planned delivery date.

A derivative must be designated and effective to be accounted for as a hedge. Effectiveness is achieved if the cash flows or fair values of the derivative substantially offset the cash flows of the hedged position and the timing is similar.

Premiums paid or received with respect to derivatives are recognized based on the original hedge designation date.

Per Share Amounts

Earnings per common share and cash from operations per common share are calculated using the weighted average number of paid common shares outstanding.

Candu

Canada, Deuterium, Uranium. Canadian designed and built pressure tube nuclear reactor which uses natural uranium as fuel and heavy water (deuterium oxide) as the moderator.

Dose

Term used to quantify the amount of energy absorbed from ionizing radiation per unit mass.

Enriched uranium

Uranium in which the content of the isotope uranium-235 has been increased above its natural value of 0.7% by weight. Typical low-enriched uranium for commercial power reactors is enriched in uranium-235 to the range of 3% to 5%. In highly enriched uranium, the uranium-235 has been increased to 20% or more.

In situ uranium leaching

A process involving pumping a solution down an injection well where it flows through the deposit, dissolving uranium. The uranium-bearing solution is pumped to surface where the uranium is recovered from the solution.

Light-water reactor

A thermal reactor using ordinary water both as a moderator and as a coolant with enriched uranium as fuel.

Ounce (oz)

All ounces in this report are troy ounces.

Spot market

The buying and selling of uranium products for delivery within one year.

Spot market price

Price for product sold or purchased in the spot market rather than under long-term contract.

t

Tonne (metric ton)

T

Ton (short ton)

UO_2

Uranium dioxide. Converted from UO_3 at Cameco's Port Hope plant, then compressed to pellets and sintered by fuel fabricators to make fuel for Candu reactors.

UO_3

Uranium trioxide. An intermediate product produced at Cameco's Blind River refinery and used as feed to produce UO_2 and UF_6 at Cameco's Port Hope conversion plants.

U_3O_8

Triuranium octoxide. At Cameco operations, it is in the form of concentrate, often called yellowcake.

UF_6

Uranium hexafluoride. Converted from UO_3 at Cameco's Port Hope plant. Following enrichment, UF_6 is converted to enriched UO_2 suitable for fabrication into fuel for light-water reactors.

Western World Uranium Market

Western world includes Argentina, Australia, Belgium, Brazil, Canada, Czech Republic, Finland, France, Gabon, Germany, India, Indonesia, Japan, Mexico, Namibia, Netherlands, Niger, Pakistan, Philippines, Portugal, Romania, Slovenia, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom and the United States.

Conversion Factors

Weights and measures are indicated in the unit most commonly used in specific areas of the industry. These are noted with * and conversion factors are provided below.

Take This:	*cm	*km	*oz	t	*T	*oz/T	*lb U_3O_8	tU	*% U_3O_8
Do This:	÷ 2.54	÷ 1.6093	x 31.1035	x 1.102	x 0.9072	x 34.286	÷ 2599.8	x 2599.8	÷ 1.17924
To Obtain This:	= inch	= mile	= g	= T	= t	= g/t	= tU	= lb U_3O_8	= % U

Reserves

Reserves

That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Reserves can be either proven or probable. (This relates to operating mines and properties at the development or pre-development stage, based on a positive feasibility study. These reserves include material in place and on stockpiles with allowances for mining recovery, dilution and leachability.)

Proven Reserves

Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geological character is so well defined that size, shape, depth and mineral content of reserves are well established. (They include the broken material on stockpiles.)

Probable Reserves

Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

Resources

Resources

Resources are the estimated quantity, grade and/or quality of mineralization that is of potential economic merit. A resource estimate does not require specific mining, metallurgical, environmental, price and cost data, but the nature and continuity of mineralization must be understood. Resources can be either indicated or inferred. They are a potential from which reserves could be defined.

Indicated Resources

Indicated resources are the estimated quantity, grade and/or quality of part of a mineralized body for which the continuity of grade and/or quality, together with the extent and shape, are so well established that a reliable grade and tonnage estimate can be made for a deposit of potential economic merit. Fundamental to the indicated resource class is a well-established indication of the geological continuity of the zones of mineralization.

Inferred Resources

Inferred resources are estimated quantity, grade and/or quality of a mineralized body, or a part thereof, that is determined on the basis of limited sampling, but where there is sufficient geological information and a reasonable understanding of the continuity and distribution of mineralization to outline a deposit of potential economic merit.

VISION AND VALUES

Vision

Cameco is a unique and successful international company.

Our core business is uranium production and the supply of services to the nuclear industry. We are committed to providing, on a long-term basis, outstanding value to our customers.

As an integrated leader in the nuclear industry and a recognized gold producer, we find and develop quality mineral deposits. We achieve excellence in our operations, in the protection of the environment, in the health and safety of our employees and in the development of our human resources. Cameco earns the support of the communities with which it interacts.

Cameco achieves sustainable growth and profitability through ethical business conduct and, by so doing, will continue to be an investment and employer of choice, providing outstanding value to our shareholders and a rewarding workplace for our employees.

Values

Excellence Cameco pursues excellence in all undertakings. We value people who strive to produce work of the highest quality. We encourage creativity, innovation and an attitude of continuous improvement.

People Cameco values the contribution of every employee. We seek strong relationships based on honest communications with employees and their families, customers, shareholders and suppliers.

Integrity Cameco seeks to earn the respect of all people with whom it interacts. We inspire trust based on honest, fair and ethical behaviour.

Environment Cameco's operations provide a safe human and physical environment. We are committed to exemplary practices that promote the health of employees, safeguard the environment and allow us to return the sites of our operations to their natural conditions.

DIRECTORS AND OFFICERS

Board of Directors

Richard B. Baltzan[2,3] Saskatoon, Saskatchewan
Physician, President of the Royal College of Physicians and Surgeons of Canada

Allan E. Blakeney[1,2,3,4] Saskatoon, Saskatchewan
Former Premier of Saskatchewan

Harry D. Cook[3] La Ronge, Saskatchewan
President, Kitsaki Development Corporation, Chief, Lac La Ronge Indian Band

James R. Curtiss[3,4] Washington, D.C.
Lawyer, Partner, Winston & Strawn

George S. Dembroski[1,4,5] Toronto, Ontario
Corporate Director

Justus Dornier[3] Zurich, Switzerland
Nuclear Physicist, Chair, Trans-Finanz Holdings Ltd. (financial holding company)

Nancy E. Hopkins[1,2] Saskatoon, Saskatchewan
Lawyer, Partner, Gauley & Co.

John R. McCaig[4,5] Calgary, Alberta
Chair, Trimac Corporation

Bernard M. Michel[1] Saskatoon, Saskatchewan
Chair, President and Chief Executive Officer, Cameco Corporation

Robert W. Peterson[2,5] Regina, Saskatchewan
President and Chief Operating Officer, Denro Holdings Ltd.

Robert T. F. Reid[1,5] Toronto, Ontario
President and Chief Executive Officer, Union Gas Limited

Kim Thorson[2,4] Weyburn, Saskatchewan
Lawyer, Partner, Thorson & Horner

Committee Members: [1]Executive [2]Audit [3]Environment and Safety [4]Compensation and Human Resources [5]Nominating and Corporate Governance

Officers

Bernard M. Michel
Chair, President and Chief Executive Officer

Gerald W. Grandey
Executive Vice-President

David M. Petroff
Senior Vice-President, Finance and Administration and Chief Financial Officer

Josef Spross
Senior Vice-President, Operations and Chief Operating Officer

Rita M. Mirwald
Senior Vice-President, Human Resources and Corporate Relations

Gary M. S. Chad
Senior General Counsel and Secretary

Five Year Financial Data

Financial Data

(expressed in thousands of Canadian dollars except share amounts)

	1998	1997	1996	1995	1994
Revenues	$ 718,949	$ 642,945	$ 590,861	$ 395,271	$ 347,685
Earnings from operations	104,497	150,994	145,266	103,755	84,568
Net earnings attributable to common shares	43,664	81,979	137,533	102,085	81,144
Working capital	357,401	272,568	271,112	248,432	166,048
Property, plant and equipment	1,989,011	1,342,728	1,202,557	1,115,785	997,581
Total assets	2,938,607	2,270,702	1,778,582	1,667,350	1,426,762
Total debt	601,398	286,731	200,018	196,462	61,568
Shareholders' equity	1,903,274	1,692,233	1,419,672	1,301,657	1,220,372
Total debt to capitalization	24%	14%	12%	13%	5%
Cash provided by operations	235,166	162,106	177,903	132,521	176,079
Cash used in investing activities	(693,800)	(324,845)	(162,053)	(252,482)	(106,467)
Cash provided by (used in) financing	385,378	257,858	(15,889)	114,143	(42,321)
Per common share (basic)					
Net earnings	0.76	1.51	2.60	1.95	1.56
Cash provided by operations	4.11	2.98	3.37	2.53	3.38

Shareholders' Data

	1998	1997	1996	1995	1994
Weighted average number of paid common shares	57,277,116	54,413,333	52,833,746	52,359,946	52,034,234
Market price (TSE) - high	$ 48.75	$ 60.00	$ 76.25	$ 51.75	$ 31.13
- low	24.05	40.00	50.38	29.50	21.75
- close	27.45	46.40	54.90	50.63	31.13

Production Data

	1998	1997	1996	1995	1994
Uranium concentrates (lbs U_3O_8)	27,472,000[1]	19,257,000	16,560,000	15,160,000	13,991,000
Uranium conversion (tU)	11,169	12,594	10,127	10,552	9,490
Gold (oz)	244,385[1]	202,454	40,375	31,623	–
Average uranium spot price for the year ($US/lb U_3O_8)	$10.32	$12.04	$15.54	$11.46	$9.31
Employees at year end	2,902[2]	2,469[2]	1,350	1,237	1,191

[1] Includes Uranerz' share of production from January 1, 1998

[2] Includes Cameco's subsidiaries

INVESTOR INFORMATION

Common Shares
Toronto (CCO) Montreal (CCO)
New York (CCJ)

Preferred Securities
New York (CCJPR)

Transfer Agents
For information on common share holdings, dividend cheques, lost share certificates and address changes, contact:

CIBC Mellon Trust Company
1080–2002 Victoria Avenue
Regina, Saskatchewan S4P 0R7
Phone: (306) 751-7550
Fax: (306) 751-7552

For information on preferred security holdings, interest cheques, lost certificates and address changes, contact:

The Chase Manhattan Bank
Corporate Trust Services
1201 Main Street—18 OMP
Dallas, Texas 75202
Phone: 1 (800) 248-8380
Fax: (214) 672-5873

Annual Meeting
The annual meeting of shareholders of Cameco Corporation is scheduled to be held Wednesday, May 5, 1999 at 1:30 pm at Cameco's head office in Saskatoon, Saskatchewan.

Dividend Policy
The board of directors has established a dividend policy of paying quarterly dividends of $0.125 ($0.50 per year) per common share. This policy will be reviewed from time to time in light of the company's cash flow, earnings, financial position and other relevant factors.

Investor Inquiries
Cameco Corporation
Investor and Corporate Relations Department
2121-11th Street West
Saskatoon, Saskatchewan
S7M 1J3
Phone: (306) 956-6400
Fax: (306) 956-6318

Web address: www.cameco.com

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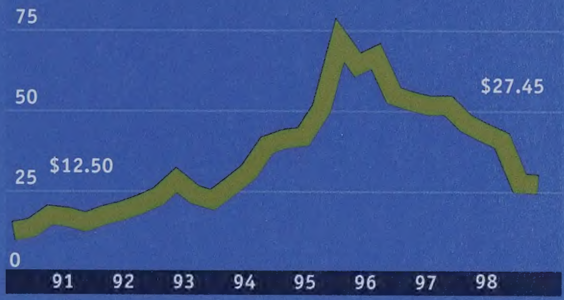
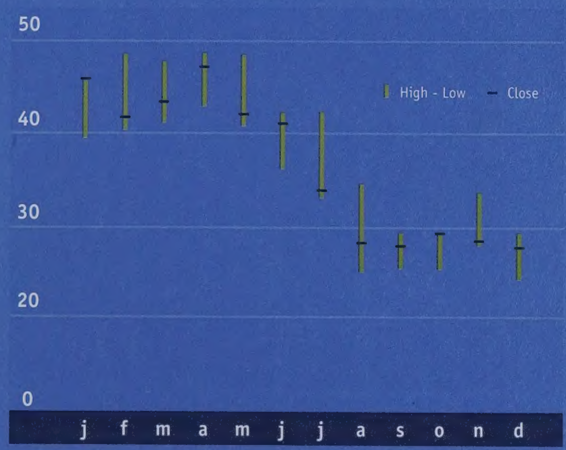
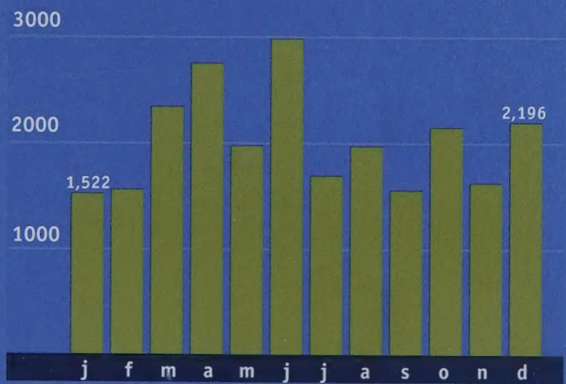


Share Performance (TSE $/share)
Cameco's share price in 1998 reflected the general volatility in commodity prices and the stock market.



Monthly Share Price TSE
Cameco's shares traded between $24 and $49 during 1998.



Monthly Share Volume TSE (thousands of shares)
In 1998, 24 million Cameco shares traded on the TSE.

December 31, 1998

Shares outstanding	57.7 million
Market capitalization	$1.6 billion

Cameco Corporation

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Canada S7M 1J3

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Cameco